Commissioning Better Outcomes Fund Evaluation

2nd Update Report

Full Report

September 2019

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Executive Summary

This report is an updated review of the Commissioning Better Outcomes (CBO or the Fund) Fund Evaluation undertaken by Ecorys UK in partnership with ATQ Consultants (ATQ), on behalf of the National Lottery Community Fund. This report focused on the progress of the CBO Fund and the advantages and disadvantages of social impact bonds (SIBs), as reported by stakeholders involved in, or interested in, SIBs.

This is the full evaluation report. There are also Targeted Audience Reports, which focus on the key findings that are of relevance and interest to specific audiences – there is one for service providers, commissioners and investors. All of these reports are available here.

Introduction

The CBO Fund is funded by National Lottery Community Fund, with a mission to support the development of more SIBs and other outcome based commissioning[1] models in England. The Fund launched in 2014 and closed to new applications in 2016, although it will continue to operate until 2023.

A SIB is essentially a type of Payment by Results[2] (PbR) contract. Like other types of PbR, a commissioner[3] (usually one or more public sector bodies) agrees to pay for outcomes delivered by service providers[4], and unless those outcomes are achieved, the commissioner does not pay. Where a SIB differs from a PbR contract is that the providers in the SIB model do not use their own money to fund their services until they get paid – instead, money is raised from 'social investors'[5] who get a return if the outcomes are achieved.

There is no generally accepted definition of a SIB beyond the minimum requirements that it should involve payment for outcomes and any investment required should be raised from social investors. The Government Outcomes Lab (GO Lab) defines Impact Bonds[6], including SIBs, as follows:

"impact bonds are outcome-based contracts that incorporate the use of private funding from investors to cover the upfront capital required for a provider to set up and deliver a service. The service is set out to achieve measurable outcomes established by the commissioning authority (or outcome payer) and the investor is repaid only if these outcomes are achieved. Impact bonds encompass both social impact bonds and development impact bonds."

The CBO evaluation is focusing on the following three areas:

[1] Outcomes-based commissioning describes a way to deliver services where all or part of the payment is contingent on achieving specified outcomes. The nature of the payment mechanism in an outcome based contract can vary, and many schemes include a proportion of upfront payment that is not contingent on the achievement of a specified outcome.

[2] Payment by Results is the practice of paying providers for delivering public services wholly or partly on the basis of results achieved.

[3] A commissioner is an organisation which funds or contracts for delivery of a service.

[4] A service provider is an organisation which is contracted or funded to deliver the service.

[5] A social investor is an investor seeking social impact in addition to financial return. Social investors can be individuals, institutional investors, dedicated social investment funds and philanthropic foundations, who invest through their endowment.

[6] See https://golab.bsg.ox.ac.uk/the-basics/impact-bonds/

- Advantages and disadvantages of commissioning a service through a SIB model; the overall added value of using a SIB model; and how this varies in different contexts.
- Challenges in developing SIBs and how these could be overcome.
- The extent to which CBO has met its aim of growing the SIB market in order to enable more people, particularly those most in need, to lead fulfilling lives, in enriching places and as part of successful communities. It also considers what more the National Lottery Community Fund and other stakeholders could do to meet this aim.

The main outputs of the CBO evaluation produced since the last update report in 2016 that this report draws on are as follows:

- Stakeholder consultations (4) including telephone and face-to-face consultations with organisations centrally involved in the policy development, strategic development and operational delivery of SIBs in England, and stakeholder engagement meetings and events
- Stakeholder surveys involving a qualitative survey with investors, conducted either through face to face or telephone interviews (18 responded); and an online survey with commissioners (91 commissioners responded) and service providers (77 responded) either involved in, or informed about, the SIB agenda. A full account of the survey findings can be found here.
- In-depth review reports produced for the West London Zone (WLZ) (available here) and HCT Travel Training SIBs (available here)
- The LOUD report (available here), summarising the four factors essential in ensuring whether a SIB is launched
- Tele-consultations with 20 CBO applicants who did not proceed with a SIB
- A review of findings to date from the local evaluations of CBO-funded SIBs
- A review of National Lottery Community Fund Management Information and internal work
- Findings from a CBO learning seminar
- An investor breakfast meeting
- Review of wider literature

Summary of CBO Fund progress to date

As at December 2018, the Fund had agreed 87 Expressions of Interest (EoIs) (to apply for a Development Grant), awarded 62 Development Grants (one-off payments to help organisations test the feasibility of SIBs) and agreed 22 Full Awards (up to 20% of the outcomes payments in the SIBs. Of these 22, 19 SIBs had launched.

Once all SIBs are launched and outcome payments data starts to come in as SIBs mature, further data will be made available.

Evidence from other SIB evaluations

Since our last update report, quantitative evidence emerged from other SIB evaluations (including local CBO evaluations and evaluations of other non-CBO SIBs) that suggested that the interventions funded achieved positive outcomes. For example, the final report on the evaluation of the Peterborough One Service SIB (the first SIB in the UK) estimated that the One Service reduced the number of reconviction events among those discharged from HMP Peterborough by 9.0%.[7] However, due to the design of the programmes and evaluations it is not possible to determine the extent to which the SIB mechanism itself led to better outcomes in these cases, or whether the same outcomes would have been achieved through a standard commissioning approach. The CBO evaluation team will use qualitative research to estimate the extent to which outcome levels can be attributed to the SIB mechanism.

Benefits and advantages of SIBs

In terms of the main advantages, those who have set up and are implementing a SIB reported that they were resource intensive but were worth the effort because of the benefits they bring as outlined below, although it is too early to state whether this additional effort leads to 'better' outcomes. Those who had prior involvement in SIBs have, on the whole, had a positive experience so far and most are likely to choose to become more involved in SIBs in the future. However, the positive view on SIBs came more from investors and providers than from commissioners.

The evidence to date suggests that the stakeholders currently involved in a SIB supported through the CBO programme, perceived the main advantages as being as follows. It is worth highlighting that most of these benefits would also come from a Payment by Results contract (where the service provider, rather than an investor, takes on the financial risk), except the point that providers see the benefit of a SIB being that they do not have to bear all of the financial risk of a Payment by Results contract:

- **Provision of upfront investment from investor:** The main motivation for a commissioner to become involved in a SIB was that it leveraged up-front funds to invest in services, which they would have struggled to provide themselves. The funding from the investor in the SIB model can be viewed as a form of temporary funding, which is provided 'upfront' and in advance of the outcomes being achieved. This has different benefits for commissioners and providers. For a commissioner, it replaces the need for them to fund the service on a fee for service[8] basis. For providers, the main attraction of a SIB model was that they did not themselves have to bear the financial risk of a payment by results contract.
- **Helps to embed a more outcomes-focused culture in service providers:** Service providers, commissioners and investors consistently reported that attaching payments to outcomes increased the service providers' focus on achieving outcomes (although this benefit could also be achieved through a PbR contract without social investment). This also has benefits for participants receiving the service or intervention, as the provider has a better sense of whether their support is working (and can adapt if not). It is also noteworthy that the service provider survey suggested that this outcomes-focused culture could also have adverse effects; service providers reported that the second main negative impact of SIBs was that the increased pressure to achieve outcomes affected staff morale and led to higher levels of staff turnover. However, the fact that service providers still reported an outcomes-focussed culture as the main benefit of SIBs despite this adverse effect, appear that they perceived the benefits of an outcomes-focused culture to outweigh the impact on morale.
- **More flexible service delivery:** Service providers were able to more easily adapt provision part way through the delivery period due to the outcomes-based nature of the contract. In fee for service type projects the contracts are normally tightly defined and prescribed in relation to the activity that needs to be delivered in terms of scope, type and intensity. For a SIB, the contracts focus more on the outcomes rather than the activity leading to 'room' for flexibility to respond to certain situations. This again has potential benefits for recipients, as the service can be more responsive and tailored to their needs.

[7] See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/633243/peterborough-social-impact-bond-cohort-2-results-report.pdf

[8] A fee for service contract is one where payment is based on service levels or outputs delivered, rather than outcomes.

Disadvantages of SIBs and challenges to their development

SIB development has been slower than some expected. The LOUD report identified that SIB proposals sometimes did not progress for a number of reasons, and were unlikely to be launched if a commissioner or provider attempted to develop a SIB without a clear focus on four key factors:

- **Collective Leadership:** Engagement in all organisations, at all levels
- **Clear Outcomes:** Clear, objective, attributable, (ideally) occurring within five years and (ideally) leading to cashable/efficiency savings
- **Shared Understanding:** Agreement over how the policy problem could be addressed, that the intervention has a good enough evidence base and is appropriate to the local area
- **Data:** On the size of the eligible cohort; costs and outcomes of current support; and outcomes from the SIB intervention. This is to build a credible and investable business case.

Further challenges to developing SIBs included:

- **Length of time to develop:** By looking at the SIBs that the evaluation has followed as indepth reviews so far, we can see they took between 2 and 3 ½ years to develop; longer than many expected. This was partly due to the technical demands of developing a social impact bond, often in an area (policy or location) for the first time; but it was also due to the complexities of putting in place arrangements that required multiple stakeholders, some of whom had incomplete understanding of the requirements of introducing a SIB.

- **Relatively large set-up costs:** In part because of the long development periods and challenges of multiple stakeholder engagement, SIBs continue to incur large set-up costs. The first four SIBs we are tracking through in-depth reviews reveal an average direct cost of £150,000 to set up. Stakeholders we have consulted assert that the costs of development are in general falling, although we do not yet have evidence from implemented SIBs to support this.

- **Complexity and lack of understanding between key parties:** SIBs involve a range of parties, all of whom have particular interests that need to be accommodated before the SIB development can proceed successfully. Significant challenges can emerge in relation to:
  - ► Commissioners' and providers' understanding the role of the investor;
  - ► The degree to which there is understanding of SIBs within and across commissioning organisations;
  - ► Levels to which all parties understand the constraints sometimes placed on commissioners; and
  - ► The relationship between the providers of interventions and the parties making referrals to them.

  All of these four points highlight that SIBs require organisations to work quite differently, and this is sometimes not recognised. Stakeholders attending the learning workshop felt the solution was to ensure the expectations around cultural transformation are overt, and to engage all necessary parts of all organisations as early as possible.

- **Agreeing contracts to suit all parties:** It can be challenging to align the different interests of the multiple stakeholders involved in SIBs so that a contract acceptable to all parties can be agreed. Crucially, they must contain the appropriate terms to make them suitable for an outcomes-based approach, for example relating to treatment of outstanding outcome payments in the event of contract termination.

- **Limited commissioner capacity to develop SIBs:** Some commissioners lack the capacity to develop SIBs as thoroughly and effectively as is necessary to ensure they are launched. This compounds, and to some degree underpins, the four challenges listed above. It is important to note that Development Grants, which were often quite generous, along with a number of other sources of advice including CBO-Funded central support contracts, were in place to address lack of commissioner capacity. However these appear to have mitigated but not entirely resolved the problem. Indeed the degree to which commissioners reported capacity constraints as being a challenge would suggest this problem is far from being resolved, and that other factors are at play – most obviously that internal resources need to be committed alongside external support (for example to collect and analyse data) and/or that external advice and support does not cover all development needs. For this issue to be fully resolved commissioning organisations would have to prioritise the SIB development further and expend further in-kind resources, or pay for more external expertise and support. Given that a number of commissioners reported that the SIB development was disproportionately demanding compared to other similar projects, and given the context of wider budget cuts, we think this seems unlikely.
- **Policy uncertainty:** Changes in policy can affect the measurement of impact; for example the third cohort of the Peterborough SIB was cancelled because changes in national policy meant the payment mechanism was no longer viable (outcomes were compared to a comparison group that was not accessing the intervention; the intervention was then rolled out and therefore there was no viable comparison group). The impact of policy changes is potentially greater in a SIB context than in conventional contracts because all, or a high proportion, of payments are tied to performance, and therefore changes in policy can affect the revenue the SIB is able to generate. This remains an issue, but was not as widely reported as in previous research waves, suggesting that SIBs have been designed to mitigate against this risk, or stakeholders have simply accepted the risk.

This research has also highlighted potential solutions to some of these challenges and disadvantages, including:

- replicating previous SIB models, including using pre-developed SIB tools (such as payment mechanisms or contracts) meaning less time and cost has to be expended on these; and
- innovations in the SIB design to compensate for when the LOUD factors are not present (such as running pilots, using foundation funding to de-risk investments and building in points to revisit the payment mechanism if it not working, All three of these are present in the WLZ SIB).

Other SIB observations

As well as the main advantages, disadvantages and challenges currently associated with SIBs, our research has revealed some other interesting findings. They include:

- **Assumptions in original business cases not being correct, making it challenging for SIBs to achieve their forecasted outcomes:** An advantage of SIBs initially observed through the primary research of the CBO evaluation, and reported in wider literature, was that they stimulated a strong business case to underpin the intervention prior to it being implemented, because a strong business case was necessary to model the potential outcomes and required level of upfront investment. However, as the focus of the evaluation has shifted to interviewing those delivering (rather than designing) SIBs, there is some evidence to show that this business case was perhaps not as robust as first thought. This means that the SIB may not meet the forecast outcomes and/or level of financial benefit expected, with potential consequences for the contract's viability.
- **SIBs lead to increased performance management, which has benefits but also disadvantages:** Stakeholders reported that SIBs can lead to better performance management than fee for service contracts. However, the performance management aspect of the SIB was also one of the areas that could discourage commissioners from further developing a SIB, because some commissioners were concerned that the additional contract management, and associated time demands, did not justify the potential benefits from the SIB approach. Furthermore, service providers felt it added an extra layer of pressure on those delivering the provision. This can be viewed as a paradox (that commissioners simultaneously like the outcomes focus that comes with the performance management, but dislike the time demands); however, it is more that some commissioners saw this as a benefit, and others as a benefit that did not outweigh the costs. We will be able to gather a better sense of which of these is the prevailing view in the remainder of the evaluation.
- **The ever-growing diversity of SIBs:** A 'one-size-fits-all' approach to SIB development and implementation is not appropriate; the multiplicity of partners that exist within a SIB (investors, commissioners, service providers and intermediaries) as well as a wide variety of policy areas and local contexts, mean that the combination of wants and needs from those involved varies relatively widely from one SIB to another. In addition, investors and providers choose to structure each contract and its financial and governance arrangements differently, both to suit their own needs and wants, and to meet the requirements of commissioners. There is a continuing trend towards diversity in:
  - ► the policy and service areas in which SIBs have been successfully implemented and are currently being developed;
  - ► the range of interventions that are commissioned and funded using an outcomes-based approach;
  - ► the range of SIB models and structures, defining the way that individual contracts are managed; and
  - ► the different ways in which investment in SIBs is structured, reflecting both investor and provider preferences, for example as to the sharing of financial risk between investors and service providers, and the way that different parties want to deploy the capital that is being provided

  As part of this diversification of models, there has been a move away from what might be termed heavily intermediated or managed SIBs and towards variants on the 'Direct' SIB model, where the commissioner contracts directly with the provider and the investor funds the provider without a significant performance or contract management superstructure.
- **SIB development continuing to be driven by service providers:** In the CBO Fund, a substantial number of applications were driven by service providers and/or intermediaries. The National Lottery Community Fund explicitly set out to attract EOIs from VCSEs because they saw the potential role for VCSEs in SIBs. The large number of service provider and intermediary-led EOIs appears to be because commissioners lack the capacity to develop SIBs (see above), and so this gap is being filled

by others. This has both strengths (changing the dynamics between commissioners and service providers and encouraging commissioners to adopt providers' innovations) but also weaknesses (developing propositions that commissioners have no interest in commissioning). In addition, the prominence of providers in developing SIBs continues to lead to challenges at procurement stage. Much of this arises because of the tension between providers who have invested, often significantly, in SIB development and commissioners aiming to ensure proper competition and value for money. Some providers who have invested time and money in developing a contract have a wish to see a contract awarded to them without open competition, and the 'light touch' procurement regime offers entirely legal and proper routes to achieving this in the right circumstances. Conversely, we have found local authority and other commissioners to be cautious about using such procedures (notably the single stage Prior Information Notice[9] and even more so the Voluntary Ex Ante Transparency (VEAT) Notice[10]) when they believe that there is a prospect of genuine competition, and potentially achieving better value from other providers and/or investors.

- **Continuing questions about the extent to which SIBs drive innovation:** Interventions commissioned via SIBs are not always as innovative as they might be perceived or expected. The important distinction is between the commissioning, contracting and financing arrangements that are themselves clearly innovative and the contracted interventions that are not always very different to arrangements already in place
- **Mixed evidence regarding the involvement of smaller providers in SIB delivery:** Some of the SIBs we have reviewed have enabled smaller providers to become involved, especially as sub-contractors to larger 'prime' providers and intermediaries. Against that, there have been two trends: towards investors working repeatedly with trusted organisations with strong and credible management teams; and towards simpler, direct SIB models that will tend to be with a single, established provider. Both these trends are likely to work against smaller providers.

[9] A Prior Information Notice (PIN) is a method for providing the market place with early notification of intent to award a contract/framework. It allows a narrow window for potential bidders to express an interest and then to submit a proposal in a period as short as 10 days.

[10] A VEAT provides retrospective notice through the OJEU (Official Journal of the European Union), which publishes information on public sector contracts) process of a decision to award a contract to a provider without competition. A VEAT is the reverse of a PIN (see above) in that it does not provide for a competition.

How the SIB landscape has changed since 2014, and how the CBO Fund has influenced this

The SIB landscape has changed to a large degree since our baseline assessment in 2014. The number of SIBs in the UK has more than doubled; they are operating in new policy areas (particularly in the health sector); their characteristics have changed; and the supporting SIB infrastructure has grown and matured.

Interestingly though, the benefits and challenges surrounding SIBs have stayed broadly the same. The evidence base since 2014 has generally strengthened some of the emerging findings. However, the evidence base around some benefits (such as bringing upfront investment and embedding an outcomes-focused culture) is greater than other anticipated benefits (such as the ability of SIBs to foster innovation). What is perhaps interesting is that many of the challenges identified in 2014 still exist: they still take a long time to develop, and require large set up costs; and there are still challenges in agreeing contracts to suit all parties.

The activity funded through the CBO Fund has contributed quite substantially to these changes in the SIB landscape. The work of the support contract engaged a large number of stakeholders and contributed to the increases in awareness of SIBs. The Development Grants and allied support provided stakeholders with the resources to test and develop SIBs in new policy areas. This, coupled with the top-up funding, has directly led to SIBs being launched that would not have been otherwise. Furthermore, the pipeline of funding helped build and mature the capacity of the wider SIB market, and has generally increased the sector's understanding and awareness of SIBs. This is likely to lead to a legacy beyond the direct SIBs funded through the CBO Fund.

Conclusions

Stakeholders involved in the CBO-funded SIBs whom we have consulted were satisfied with how the SIBs were developing. Commissioners were satisfied because SIBs were funding services commissioners would have struggled to fund otherwise because they could not take risks on relatively unproven programmes in their area and/or they could not afford early intervention programmes in this climate. Service providers were satisfied because SIBs were allowing them to deliver what they perceived to be innovative and new services that they would not have received funding for otherwise. And investors were satisfied because of the returns they were receiving, and because they had a better sense of what social impact the invested VCSEs were achieving because SIBs embed an outcomes-focused culture. Evaluations published to date of other SIBs also show that the interventions funded by the SIBs are achieving positive outcomes and therefore potentially benefiting service users. Therefore the ''win, win, win' (win for the commissioner, win for the service provider and win for the investor) premise on which they were built appears to be materialising, though we do not yet know how much the end beneficiary 'wins' from the mechanism, as we do not yet know the extent to which the mechanism impacted on the outcomes achieved.

Sitting below this main headline is some nuance, however. Commissioners' experiences were more mixed compared to service providers and investors. We believe this is likely because most of the costs (in terms of outcome payments but also capacity demands and opportunity costs) fall to commissioners, whilst most of the benefits (in terms of delivering new services and receiving returns) fall to service providers and investors. So whilst they appear to be 'win, win, win', it would appear that some stakeholders win more than others.

Key stakeholders believe that we are nearing the end of the SIB hype cycle, as people recognise that SIBs are not a panacea, and are beginning to develop a better understanding as to when they are most appropriate, and what is required to develop one successfully. However, the SIB landscape is not yet at the 'Plateau of Productivity', where mainstream adoption starts to take off. Awareness has increased but they are still niche, only a small number of people have a detailed understanding of them and they rely on subsidies (top up funding, development grants and free support) to get off the ground. The evidence base underpinning them has strengthened but is still relatively limited.

A number of stakeholders reported during the research that this mainstreaming/widening of understanding was being hampered by the lack of information and learning stemming from the first set of funded SIBs. Until this information becomes available it is unlikely that SIBs will become mainstreamed.

Recommendations

For CBO:

- Undertake a further review of the CBO application process so lessons can be learnt for structuring any future SIB subsidy funding.

For others wishing to develop the SIB market:

- Provide independent guidance on how commissioners and service providers could engage with investors depending on the role sought from the capital, and when, how and why some investors seek to split the risk in SIBs between stakeholders, rather than carry it all themselves
- Provide clear and easy to understand information on the different ways investors can apply capital to SIBs, and the positioning and preferred approaches of specific leading investors
- Provide clearer guidance to providers on when and when not to expect commissioners to use the light-touch procurement regime
- Ensure commissioners are aware of what the essential elements of an outcomes-based contract are, and the importance of building the right contract terms into SIB contracts, even if they do not use the template contract.

For commissioners:

- Consider closely the terms and conditions in SIB contracts
- Where possible take the lead on developing the SIB.

For providers:

- Familiarise yourself with when it is, and is not, appropriate to expect commissioners to use the light-touch procurement regime.

For all stakeholders:

- Stakeholders should publish real-time data on the structure, business case, performance and outcomes of SIBs, and their rationale for pursuing a SIB compared to other options, in order to facilitate replication and increase stakeholders' awareness of the effectiveness of SIBs.
- Focus on ensuring the four LOUD factors are in place when developing a SIB
- Stakeholders developing SIBs need to recognise and make clear that the SIB will require a cultural transformation and way of working that is focussed on all parties' involvement in systems change; to achieve this they must engage all necessary parts of all organisations as early as possible to work out

what tools and attitudes they need to apply in their work in pursuit of this: The evaluation findings suggest that SIBs require organisations to work quite differently, and this is sometimes not recognised as. SIBs are seen primarily as a new way of buying an intervention.

Areas for further research

Throughout this report we highlight areas that require further research in order for them to be fully understood. These are listed below, including whether and how they will be explored through later waves of the evaluation:

- Impact of the SIB mechanism on the level of outcomes achieved.
    - *This evaluation will measure qualitative perceptions on the extent to which the SIB contributed to the levels of outcomes achieved. Due to the design of the programme it will not be possible to measure this quantitatively, as there are no comparison sites through which to measure the counterfactual robustly.*
- In the SIBs that are not self-funded by the cashable savings they generate, why it is that a commissioner can pay for the outcomes in the future, but not at the present time?
    - *This will be explored over the remainder of the evaluation, particularly by understanding how commissioners fund outcome payments*
- What are service providers' overall views on the impact of the outcomes-focused culture brought about by SIBs? How is it that service providers report this to be a benefit overall, yet also report that it reduces staff morale?
    - *To be explored in remainder of evaluation through further qualitative analysis of impact on providers*
- The cost of setting up SIBs in programmes since CBO, and whether costs are falling
    - *This is beyond the scope of the evaluation*
- Further information on commissioners' views on whether the benefits of the increased contract management linked to SIBs outweighs the costs
    - *To be explored in remainder of evaluation through capturing commissioners' views over time*
- How the balance of risk between parties is captured in contracts, and commissioners' understanding of the process
    - *To be explored in remainder of evaluation*
- The level of robustness of the SIB business cases, and what happens to the SIB when the assumptions in the business case prove to be incorrect
    - *To be explored in remainder of evaluation by comparison of actuals to business case forecast, and exploration and analysis of all parties' responses to variation*
- How the different SIB models (particularly the 'intermediated' and 'direct' models) affect the delivery and performance of the interventions
    - *To be explored in remainder of evaluation, particularly by comparing the performance of different models*
- Whether the 'win-win-win' for commissioners, service providers and investors holds true when the SIB is not succeeding against its outcome targets
    - *To be explored in remainder of evaluation*
- How both the CBO-funded SIBs and other SIBs develop outside of a SIB-stimulation programme
    - *This is beyond the scope of the evaluation*
- Why commissioners' experiences of SIBs are more mixed compared to the experiences of investors and service providers
    - *To be explored in remainder of evaluation*

1.0 Introduction

This report is an updated review of the Commissioning Better Outcomes (CBO or the Fund) Fund Evaluation undertaken by Ecorys UK in partnership with ATQ Consultants (ATQ), on behalf of the National Lottery Community Fund. The report updates the information and data found in our 2016 Update Report[11], drawing on a number of pieces of work undertaken throughout 2016 to 2018 by the evaluation team.

This report focuses on the progress of the CBO Fund and the advantages and disadvantages of social impact bonds (SIBs), as reported by stakeholders involved in, or interested in, SIBs. The report focuses predominantly on the set up of SIBs, as this is where the majority of the evaluation activity has focused to date. Where possible it attempts to comment on how SIBs are affecting project delivery on outcomes, and we hope to say more on this in our next update report.

1.1 Summary of CBO Fund

The CBO Fund is funded by National Lottery Community Fund, with a mission to support the development of more SIBs and other outcome based commissioning[12] models in England. The Fund launched in 2014 and closed to new applications in 2016, although it will continue to operate until 2023. The CBO Fund is making up to £40m available to pay for a proportion of outcomes[13] payments for SIBs and similar outcomes-based contractual models in complex policy areas. It also funded support to develop robust proposals and applications to the Fund.

The Fund has four objectives:

- Improved skills and confidence of commissioners with regards to the development of SIBs
- Increased early prevention is undertaken by delivery partners, including voluntary, community and social enterprise (VCSE) organisations, to address deep rooted social issues and help those most in need
- More delivery partners, including VCSE organisations, are able to access new forms of finance to reach more people
- Increased learning and an enhanced collective understanding of how to develop and deliver successful SIBs.

The Fund is built on a 'test and learn' philosophy, and National Lottery Community Fund has been adapting the programme as the SIB landscape evolves.

The Commissioning Better Outcomes Fund has also been managed alongside the Cabinet Office's Social Outcomes Fund (SOF). SOF had been set up by the Government at the same as CBO was developed, to provide top-up funds to some SIBs. Although SOF had different objectives to CBO, it had some synergies too, so a joint process for handling expressions of interest (EoI) was agreed. It was anticipated that through the EoI process, some SIBs would be directed into SOF and some to CBO, depending on their fit with

[11] See: https://www.tnlcommunityfund.org.uk/media/research-documents/social-investment/CBO-Update-Report_Full-Report.pdf?mtime=20190215124522

[12] Outcomes-based commissioning describes a way to deliver services where all or part of the payment is contingent on achieving specified outcomes. The nature of the payment mechanism in an outcome based contract can vary, and many schemes include a proportion of upfront payment that is not contingent on the achievement of a specified outcome.

[13] An outcome is a result or change experienced by a person, family or community, for example improved parenting.

programme objectives. However, with the pipeline of all SIBs being slow to develop and SOF needing to be spent on schedule, the first five SIBs to come through the shared CBO/SOF process pipeline received a combination of SOF and CBO money, with SOF profiled to be spent first; The share of the top-up amounts from SOF and CBO respectively reflected each SIB's alignment with the programme objectives.

In this update report, when we present programme figures, this relates to the six SIBs which had top-up contributions from both the SOF and CBO funds, (including one which later had two separate extensions from CBO) plus the SIBs which had CBO top-up funding alone.

The terms on which SOF was able to make its awards were less specific than the CBO terms, with regard to the level of reporting required and the rules upon which payments would be considered outcome payments (rather than output payments). As a result, the early SIBs which received CBO top up payments after their SOF payments have now subsequently been required to produce more detailed outcomes reporting; further learning generated about their performance as this data comes in will be reported on later in the programme, together with the data for the SIBs which had top up only from CBO, as they mature and start to generate payments.

Further details about the aims, funding and activities of CBO can be found on the website[14].

1.2 SIB definition

A SIB is essentially a type of payment by results[15] (PbR) contract. Like other types of PbR, a commissioner[16] (usually one or more public sector bodies) agrees to pay for outcomes delivered by service providers[17], and unless those outcomes are achieved, the commissioner does not pay.

Where a SIB differs from a PbR contract, is that the providers in the SIB model do not use their own money to fund their services until they get paid – instead, money is raised from 'social investors'[18] who get a return if the outcomes are achieved.

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"impact bonds are outcome-based contracts that incorporate the use of private funding from investors to cover the upfront capital required for a provider to set up and deliver a service. The service is set out to achieve measurable outcomes established by the commissioning authority (or outcome payer) and the investor is repaid only if these outcomes are achieved. Impact bonds encompass both social impact bonds and development impact bonds."

[14] See: https://www.tnlcommunityfund.org.uk/funding/programmes/commissioning-better-outcomes-and-social-outcomes-fund

[15] Payment by Results is the practice of paying providers for delivering public services wholly or partly on the basis of results achieved.

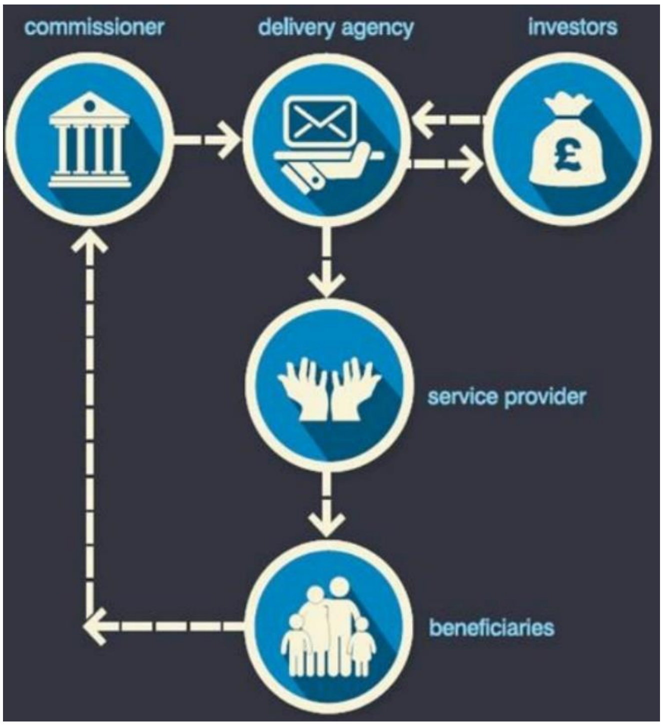
[16] A commissioner is an organisation which funds or contracts for delivery of a service.

[17] A service provider is an organisation which is contracted or funded to deliver the service.

[18] A social investor is an investor seeking social impact in addition to financial return. Social investors can be individuals, institutional investors, dedicated social investment funds and philanthropic foundations, who invest through their endowment.

The most common type of SIB model is shown in simplified form in Figure 1.1. However, it should be noted that not all SIBs follow this structure; for example, in some SIBs the service provider is also the delivery agency; thus, outcome payments are made to the provider who in turn repays the investment they have received.

Figure 1.1: Example SIB Structure

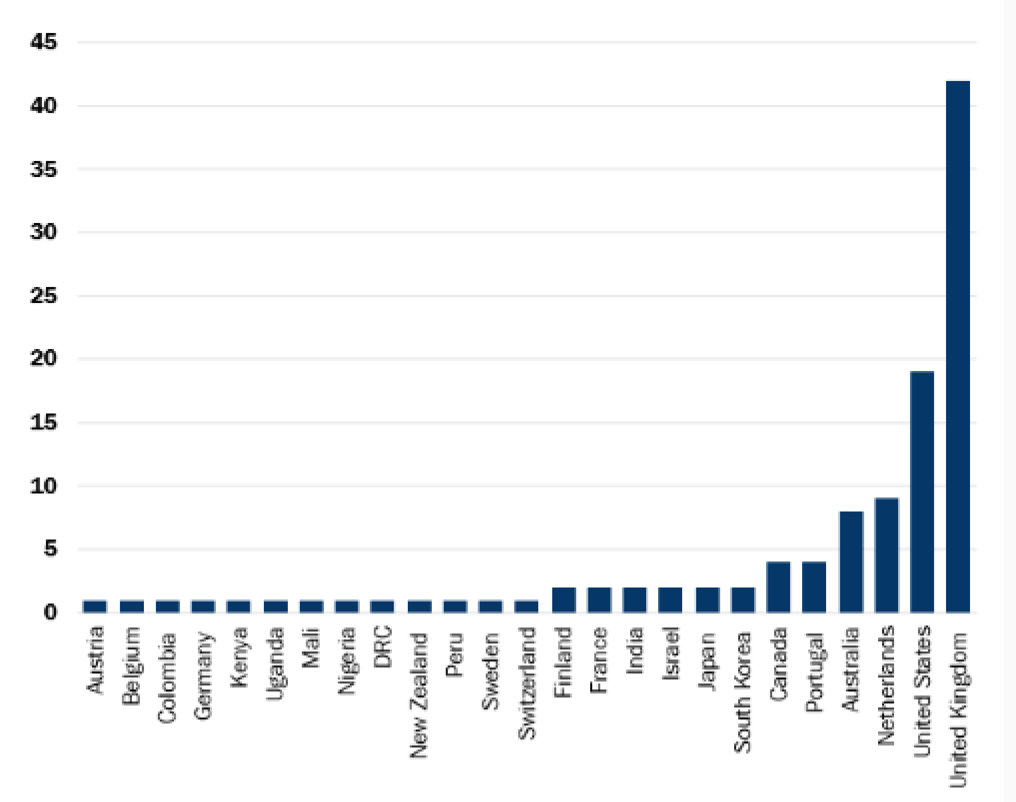


The issues of definition discussed above, and the fact that new SIBs are launching all the time, makes it difficult to estimate how many current contracts qualify as a SIB, but according to GO Lab as of April 2019 68 SIBs had been launched in the UK, more so than in any other country[19] (**Figure 1.2**). These SIBs are being used to tackle a range of social issues including homelessness, youth unemployment and children in care[20].

[19] See: https://www.brookings.edu/blog/education-plus-development/2018/01/17/paying-for-social-outcomes-a-review-of-the-global-impact-bond-market-in-2017/

[20] Social Finance, 2016, Social Impact Bonds, The Early Years.

Figure 1.2: Impact bonds by country



Source: Brookings Institution Global Impact Bonds Database, January 2018. See: https://www.brookings.edu/blog/education-plus-development/2018/01/17/paying-for-social-outcomes-a-review-of-the-global-impact-bond-market-in-2017/

1.3 Evaluation focus

The CBO evaluation is focusing on the following three areas:

- Advantages and disadvantages of commissioning a service through a SIB model; the overall added value of using a SIB model; and how this varies in different contexts.
- Challenges in developing SIBs and how these could be overcome.
- The extent to which CBO has met its aim of growing the SIB market in order to enable more people, particularly those most in need, to lead fulfilling lives, in enriching places and as part of successful communities. It also explores what more the National Lottery Community Fund and other stakeholders could do to meet this aim.

The evaluation findings will contribute to an overall judgement of the effectiveness of the SIB model, though it is only focusing on SIBs supported through the CBO Fund and therefore will not be evaluating all SIB models.

1.4 Evaluation activity completed to date

The main outputs of the CBO evaluation produced since the last update report in 2016 that this report draws on are as follows:

- Stakeholder consultations, including telephone and face-to-face consultations with organisations centrally involved in the policy development, strategic development and operational delivery of SIBs in England. These consultations repeat and update consultations first undertaken in the early stages of the evaluation in 2014. The evaluation consulted with four stakeholders
- Stakeholder surveys involving a qualitative survey with investors, conducted either through face to face or telephone interviews (18 responded); and an online survey with commissioners (91 responded) and service providers (77 responded) either involved in, or informed about, the SIB agenda. These surveys were conducted in the second half of 2017 and reflect changes and developments in views captured in baseline surveys that were again conducted in the early stages of the evaluation in 2014. A full account of the survey findings can be found in here.
- In-depth review reports produced for the West London Zone (WLZ) (available here) and HCT Travel Training SIBs (available here)
- The LOUD report (available here), produced jointly by Ecorys UK and the Policy Innovation Research Unit (PIRU). This examined the reasons why 25 areas did, or did not, set up a SIB and summarised the four factors that were essential in ensuring whether a SIB was launched. This report is referred to as the LOUD report after these four factors which are: collective Leadership; clear Outcomes; shared Understanding; and Data
- Tele-consultations with 20 CBO applicants who did not proceed with a SIB to identify the reasons why the SIB did not go ahead
- A review of findings to date from the local evaluations of CBO-funded SIBs
- A review of National Lottery Community Fund Management Information and internal work, including surveys of CBO applicants and intermediaries
- Findings from a CBO learning seminar held in July 2017 with commissioners and service providers involved in CBO-funded SIBs.
- An investor breakfast meeting held in October 2018 with SIB social investors, to discuss the findings from the investor survey. A blog post summarising the discussion can be found here.

We also reviewed the findings from significant research that has been published since our last update report. In particular, we have reflected on the findings from the following independent evaluations of and research relating to SIBs:

- Evaluation of the Fair Chance Fund: Second interim report[21]
- London homelessness social impact bond evaluation[22]
- HMP Peterborough Social Impact Bond - cohort 2 and final cohort impact evaluation[23]
- Evaluation of Birmingham City Council's Step Down Programme: Report of the Preliminary Findings January 2017[24]
- Link Worker social prescribing to improve health and well-being for people with long-term conditions: qualitative study of service user perceptions (Moffat et al, 2017) (based on research in the Ways to Wellness (WtW) SIB)[25]
- The institutional work of social impact bonds (Lowe et al, 2018) (based on research in the WtW SIB)[26]
- The Potential and Limitations of Impact Bonds: Lessons from The First Five Years of Experience Worldwide' (Brookings Institute, 2017).[27]

In addition we have reflected on findings from the following publications and grey literature that have attracted comment or stimulated debate about SIBs since our last report:

- Evaluation of the Essex Multi-Systemic Therapy Social Impact Bond - Findings from the first three years - OPM[28]
- Social Impact Bonds: The Role of Private Capital in Outcome-Based Commissioning, Edmiston and Nicholls[29]
- Social Impact Bonds: The Early Years: Social Finance[30]
- Social Impact Bonds: An Overview of the Global Market for Commissioners and Policymakers Centre for public Impact (Floyd, D)[31]
- Social Impact Bonds: State of Play & Lessons Learnt - OECD[32]
- Stronger charities for a stronger society: House of Lords Select Committee on Charities: March 2017.[33]

[21] See: https://www.gov.uk/government/publications/fair-chance-fund-evaluation-interim-reports
[22] See: https://www.gov.uk/government/publications/london-homelessness-social-impact-bond-evaluation
[23] See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/633243/peterborough-social-impact-bond-cohort-2-results-report.pdf
[24] See: http://reescentre.education.ox.ac.uk/wordpress/wp-content/uploads/2017/04/StepDownBirmingham_Prelim-Findings_ReesCentreApr2017.pdf
[25] See: http://bmjopen.bmj.com/content/7/7/e015203
[26] Lowe, T, Kimmitt, J, Wilson, R, Martin, M, Gibbon, J. (2018) *The Institutional Work of Social Impact Bonds.* Working Paper.
[27] See: https://www.brookings.edu/wp-content/uploads/2016/07/Impact-Bondsweb.pdf
[28] See: http://www.opm.co.uk/wp-content/uploads/2017/02/OPM-Essex-MST-SIB-Evaluation-3-Year-Findings.pdf
[29] See: https://www.sbs.ox.ac.uk/social-impact-bonds-role-private-capital-outcome-based-commissioning
[30] See: http://www.socialfinance.org.uk/resources/publications/social-impact-bonds-early-years
[31] See: http://socialspider.com/wp-content/uploads/2017/04/SS_SocialImpactReport_4.0.pdf
[32] See: https://www.oecd.org/cfe/leed/SIBs-State-Play-Lessons-Final.pdf
[33] See: https://publications.parliament.uk/pa/ld201617/ldselect/ldchar/133/133.pdf

1.5 Structure of the remainder of the report

The remainder of the report is structured as follows:

- Chapter 2: Summary of CBO Fund to Date and Evidence from Other SIB Evaluations provides a short overview of the CBO Fund and provides summary details of the progress the Fund has made since its inception, using monitoring information provided by the National Lottery Community Fund. It also includes a review of the outcomes achieved by other non-CBO SIBs, drawing on published independent evaluations.
- Chapter 3: Advantages of SIBs outlines the advantages of SIBs, as reported by commissioners, service providers and investors either involved in, or considering getting involved in, SIBs.
- Chapter 4: Disadvantages of SIBs and Challenges to their Development outlines the disadvantages of SIBs, as reported by commissioners, service providers and investors either involved in, or considering getting involved in, SIBs. This also includes some of the challenges stakeholders have faced in establishing SIBs.
- Chapter 5: Other SIB Observations, includes other interesting findings within the research.
- Chapter 6: How the SIB Landscape has Changed Since 2014, and How the CBO Fund has Influenced This reviews the extent to which the landscape has changed since the CBO Fund launched, and how the CBO Fund has shaped these changes.
- Chapter 7: Conclusions and Recommendations draws the previous chapters together to conclude on the overall progress of the CBO Fund, and offers recommendations for organisations supporting the development of SIBs, service providers, commissioners and investors.
- Glossary: The report includes a set of technical terms, and this glossary provides definitions for these terms. Where they are first used, there is a footnote with a definition for the term.

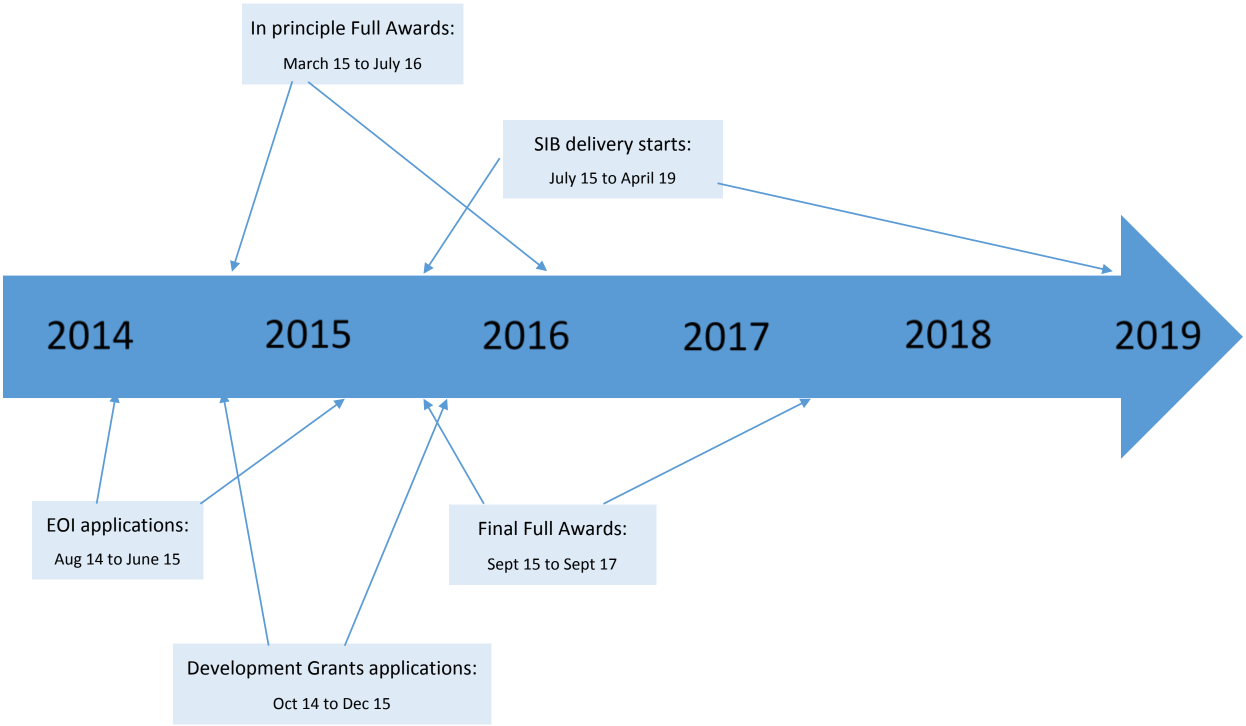
2.0 Summary of CBO Fund Progress and Evidence from other SIB Evaluations

This section provides a short overview of the CBO Fund and a summary of its progress since inception. It draws on monitoring information provided by the National Lottery Community Fund.. The section also summarises the outcomes achieved by other non-CBO SIBs.

2.1 CBO progress

The CBO Fund closed for applications in July 2016. In total, the Fund agreed 87 Expressions of Interest (EoIs). The EoIs were short statements from the organisations who were interested in seeking financial support from the CBO Fund to help establish and implement a SIB. **Figure 2.1** provides a summary timeline of the application process.

Figure 2.1: CBO application process timeline



Further to the EOI stage, the Fund awarded 62 Development Grants, of which two were not taken up. The average Development Grant awarded was £88,130, with the two smallest being £19,850 (to Evidence-Based Social Investments Limited, in Southwark and Medway respectively) and the two largest £150,000 (to the Greater London Authority and Ways to Wellness). Since our year two Update Report, no further Development Grants have been agreed. These grants were one-off payments to help organisations who had been successful with their EoI, to develop their full CBO application. The Development Grants were used to fund the following:

- Financials and metrics support (26% of funding)
- Service definition and pre-procurement work (18%)
- Legal advice (17%)
- Commissioner engagement (15%)
- Personnel, admin and VAT (6%)
- Other professional support (4%).

As at 7 February 2019, the Fund had committed £26.5 million. Of this, £19.7m was for outcome payments and £7.5 million for Development Grants and other elements, such as the evaluation.

As at February 2019 the number of full awards made by CBO to establish a SIB stood at 22 (**Table 2.1**). Of these, 19 had launched. This was against a target set by the National Lottery Community Fund England Committee to support the commissioning of 20 outcomes based projects, primarily SIBs (see **Table 2.5**). The average value was £728k. Across all full awards, the smallest value was £22,461 (awarded to Birmingham City Council), while the largest was £2,064,889 (to the London Borough of Haringey, which was yet to launch).

As a benchmark, the top-up awards made to any SIB under the programme were expected to form typically 20% of the commissioning amount for the SIB. This was based on an assumption that most SIBs were likely to operate at scale to be viable with commissioning pots of around £5m. Where the top up was made up of contributions from both CBO and SOF, it was also anticipated that the combined sum of top up would be 20% of the total commissioning pot. However, it was also recognised that some smaller than expected SIBs were being proposed and that the smaller SIBs were more likely to require - proportionately speaking - more subsidy from top up than the larger ones, due to the nature of some of the set up costs. Therefore, to support this, the Fund continued to operate with a 20% benchmark in general, and guidance for CBO was also put in place which stipulated clearly that top up funds should not exceed 49.99% of the SIB commissioning pot, in order to accommodate the smaller SIBs. As at November 2017, the average CBO top up into finally approved SIB proposals was 22%; this increased to 39% of outcome payments in one SIB.

Table 2.1: CBO Fund: Summary of progress to 7 February 2018

Task	December 2015 (cumulative total)	December 2016 (cumulative total)	December 2017 (cumulative total)	December 2018 (cumulative total)
CBO EoI agreed	78	83*	87**	87
Development Grants (DG) agreed	51	62	62	62
Full awards agreed by CBO	4	22	28	22
SIBs launched with CBO support	2	5	11***	19****
Commissioners in SIBs in delivery	2	10	20	45
Providers active in delivery	5	11	42	51
Total number of investors *****	1	4	4	8

**7 with no direct DG support ** 11 with no direct DG support. ***1 SIB was only soft launched, delivering from 10.18 ****1 SIB was soft launched delivering from 1.19 *****These are the retail investors in CBO SIBs and do not include wholesale investors/funders such as Big Society Capital*
Source: The National Lottery Community Fund. Progress as of December 2018

In terms of the types of applications received and awarded by CBO, as at February 2018 two-thirds sat in the social care and health categories (**Table 2.2**). While there was a reasonable geographic spread of applications at EoI stage, half of the full awards had been made to London-based projects (**Table 2.3**). However, some caution should be made in drawing conclusions from these figures as the Fund is still live with some SIBs still to launch and so the figures may change. Once the Fund is closed we intend to analyse the relationship between various factors and whether a SIB goes to full award.

Table 2.2: CBO social policy coverage of applications to 7 February 2018

Policy Area	EOI	Development Grant	Full Award *
Children and Youth	11%	16%	12%
Employment	7%	7%	16%
Health	38%	34%	32%
Housing and Homelessness	5%	6%	4%
Preventing Crime	12%	11%	4%
Social Care	27%	26%	32%

**Includes all full awards: in principle, agreed and launched.*
Source: National Lottery Community Fund.

Table 2.3: CBO geographical coverage to 7 February 2018

Region	EOI	Development Grant	Full Award *
East	5%	3%	5%
East Midlands	8%	3%	4%
London	18%	27%	48%
North East	6%	6%	4%
North West	10%	12%	0%
South East	17%	17%	5%
South West	18%	17%	12%
West Midlands	11%	11%	14%
Yorkshire and Humber	7%	7%	8%

**Includes all full awards: in principle, agreed and launched. One full award SIB is delivering in 3 regions.*
Source: National Lottery Community Fund.

As at December 2018 four of the 22 full awards were provider-led and seven were led by intermediary management agents, with the remaining 11 being commissioner-led. Across the projects, 50 local commissioners and three national commissioners are engaged, including 31 LAs, 18 CCGs and one police authority. All of the SIBs involve the VCSE sector. Details of the full awards can be found on the CBO page of The National Lottery Community Fund website[34].

More information about the SIBs launched as at December 2017 is included in **Table 2.4**, with cost information provided in **Table 2.5**. Once all SIBs are launched and outcome payments data starts to come in as SIBs mature, further data will be made available. Below this, we re-introduce the SIB typology and provide further information against this typology of the five SIBs that have featured as in-depth reviews so far.

[34] See: https://www.tnlcommunityfund.org.uk/funding/programmes/commissioning-better-outcomes-and-social-outcomes-fund#section-4

Table 2.4: CBO SIBs launched to December 2017

Lead Body	Project name	Project summary	Region	Full award value
Birmingham City Council	Children in Care Payment by Results Contract	This funding is being used to work with a service provider, Core Assets, to support young people in residential care to move successfully into stable family placements, using the Step Down programme. The project is expected to achieve reductions in school exclusions, recorded crime, substance misuse, arrests, worsening mental health and anti-social behaviour.	West Midlands	£22,461
Newcastle Gateshead Clinical Commissioning Group	Ways to Wellness - a new approach to Long Term Conditions in Newcastle	This funding is being used for a SIB designed to motivate up to 11,300 older people to take up healthy activities. The National Lottery Community Fund plans to pay £2 million if the wellbeing of 8,700 people aged 40 to 75 improves as predicted. The SIB is supported by £1.65 million social investment and is the first of its kind, designed to help with long-term health conditions, commissioned anywhere in the world. Our in-depth review examining the set-up of the SIB can be found here.	North East	£1,999,850
Worcestershire County Council	Reconnections Social Impact Bond	This SIB should help reduce social isolation and loneliness through a five year county-wide SIB. This aims to improve well-being through person-centred techniques and community activities supported by 150 volunteers and co-ordinated by Age UK Malvern and Worcestershire. The SIB is managed by Reconnections Limited. It is funded by £788,000 start-up social investment, followed by £2.02 million outcomes payments if reduced loneliness is evidenced for at least 3,060 older people. Our in-depth review examining the set-up of the SIB can be found here.	West Midlands	£303,000
West London Zone	Children and Youth Engagement (age 4-17)	This five year youth engagement-focused collective impact bond (CIB)[35] is supporting delivery of early interventions to 700 disadvantaged children and young people who, while not at immediate risk of requiring educational intervention, may not flourish without link worker and specialist provider support. This should help them achieve better long-term outcomes in adult life. The services are commissioned by children's services and local schools, with philanthropic individuals connected to foundation schools also contributing to outcomes payments. The CIB has obtained £360K investment from Bridges Fund Management. Our in-depth review examining the set-up of the SIB can be found here.	London	£1,180,000
North Somerset Council	Turning the Tide	This four year SIB aims to tackle the causes of children and young people becoming looked after by the care system. Preventative interventions should help parents by enhancing their knowledge and skills and create positive family relationships. The SIB aims to support up to 240 children and young people who are currently looked after or considered to be on the edge of care. The commissioner expects to generate up to £4m	South West	£348,692

[35] A collective impact bond is a term coined by the West London Zone project to describe their innovative funding model, which brings together multiple delivery agencies (charities and other social sector partners), multiple commissioners (mostly public sector budget-holders who pay for positive outcomes for children and young people), and multiple investors (individuals, foundations and corporate institutions who want to combine commercial investment with social value, and carry some of the risk on behalf of the charities). In a collective impact bond, funding comes from multiple sources, including - but not limited to - social investment

Lead Body	Project name	Project summary	Region	Full award value
		net savings and the investor, Bridges Ventures, up to £1.83m return. A case study on the development of the SIB from the commissioner's perspective can be found here.		
HCT Group	Travel Training SIB	This three year SIB is delivering travel training for up to 200 young people with a statement of Special Educational Needs or an educational health care plan. The service aims of help young people become more independent by acquiring life skills and confidence. The commissioner expects to generate up to £3.5m net savings and the investor up to £145,000 investment return. Our in-depth review examining the set-up of the SIB can be found here.	London	£197,236
Mental Health and Employment Partnership	Mental Health and Employment Social Impact Bond	This funding is being provided to a five-year social impact bond to support people with severe and enduring mental illness to get into work in Staffordshire and the London Borough of Tower Hamlets. The SIB aims to support up to 2,800 people into employment through a recognised approach called Individual Placement and Support. Payments will be made after six weeks and six months as they take up placements. Payments will fund service delivery and repay £400,000 start-up investment capital to Big Issue Invest. Our in-depth review examining the set-up of the SIB can be found here.	London, West Midlands	£336,111
Mental Health and Employment Partnership	MHEP Haringey	This extension to the delivery of an existing SIB aims to support up to 1,000 adults with long term and enduring mental health illness in the London Borough of Haringey. Providers are delivering Individual Placement Support to help them to gain and retain employment.	London	£110,000
Mental Health and Employment Partnership	MHEP North London	This five year SIB is supporting the delivery of Individual Placement Support services to assist up to 2,632 adults with severe and enduring mental health illness gain and retain employment, in three London boroughs: Barnet, Camden and Enfield.	London	£853,318
First For Wellbeing CIC	Mayday Inspire	This four year SIB aims to address the needs of 105 homeless young adults aged 18-24 in Northamptonshire. It is a small-scale SIB that draws on the existing Fair Chance Fund infrastructure and data around young people who are not in education, employment or training. It aims to generate £0.7million in savings and will start up with £0.1million in social investment.	East Midlands	£113,684
Elton John Aids Foundation	Improving HIV Treatment SIB	This six-year proposal, working across Lambeth, Southwark and Lewisham, aims to: improve the quality of HIV treatment, especially by ensuring equal access to HIV treatment and care; test an innovative commissioning model to help address isolation and allow investment in prevention; and develop an integrated model of HIV care to improve the care process. The SIB aims to help 1,250 newly diagnosed participants with HIV to start care and get the treatment they need to stay healthy. The commissioners are expected to generate net savings of £15.2m with a planned 2% return for social investors.	London	£1,650,000

Table 2.5: SIB cost information

Project	Delivery Contract	SIB overhead[36]	% SIB overheads
Ways to Wellness	£4m	£2.2m	36%
Birmingham	£2.7m	£200K	7%
MHEP TH/Staffs	£2.7m	£900K	16%
Worcestershire	£1.4m	£300K	11%
HCT	£3.4m	£700K	7%
West London	£3.7m	£400K	5%
North Somerset[37]	£1.8m	£600K	24%
MHEP Haringey	£0.3m	£20K	7%
MHEP N London	£2.1m	£400K	16%
First for Wellbeing	£0.4m	£100K	15%
EJAF HIV	£6.5m	£500K	8%

Source: National Lottery Community Fund. NB: Figures have been rounded to the nearest £100k.

2.1.1 Typology Matrix

In light of the growth of SIBs and their development in new areas and structures since our last Update Report, we have updated the typology matrix that we propose to use to summarise the characteristics of current SIBs. This revised typology categorises SIBs according to the:

- Main policy area in which outcomes are being sought;
- Party that led SIB development;
- Contracting party/delivery agency;
- Service provider type;
- Investor type;
- Commissioner type;
- Contracting model
- Scale (Total value of contract);
- Scale (Total value of investment);
- Scale (size of cohort);
- Scale (geographical coverage);
- Contract duration;
- Local authority type (if relevant); and
- Regional location.

[36] SIB overhead is anything that is not included in the provider contract (and assumes management of the provider contract and collection of data by the provider is part of the provider contract). The main overheads are investor return on investment, SIB management including data analysis, contract management and SIB governance, project evaluation and learning (undertaken above and beyond the provider contract), and cost of raising the social investment.

[37] £60K of the North Somerset management costs relate to commissioner costs rather than SIB management.

Table 2.6 shows the sub-categories we will use in each of these category areas. **Table 2.7** applies the typology to the five CBO-funded SIBs on which we have conducted in-depth reviews to date.

While we have only completed five in-depth reviews to date, there are some interesting observations that can be made about the typology of the SIBs, and emerging similarities between them. It is interesting in particular to note that:

- None of the SIBs was initially led by a commissioner: While this in part reflects other reasons for the selection of the SIBs for in-depth review, it is also in line with the general trend, discussed elsewhere in this report, for a substantial number of developments funded by the CBO to be initially led by providers or intermediaries;
- All but one of the SIBs was backed by a single investor managing a specialist SIB Fund: This again reflects a trend towards more specialised SIB investors, and away from multiple investors brought together by intermediaries;
- All but one of the SIBs (Ways to Wellness) is of a similar scale as measured by total value, although the scale of investment is different: The latter largely reflects the different contract structures and investment mechanisms used in each case; and
- With the exception again of Ways to Wellness all the contracts are three-four years in length: This is in line with our finding in the LOUD report, that possible SIBs extending beyond five years were unpopular amongst commissioners (because they spanned electoral cycles) and investors (because of the increased time lag between providing the investment and receiving returns).

Table 2.6 SIB Typology Matrix

Category	Sub-categories										
Generic SIB Factors											
Main policy area in which outcomes are being sought	Children's Services	Housing and homelessness	Health	Crime and offending	Employment and training	Education	Drug and alcohol dependency	Older people's services	Early years	Young people	Multiple policy areas
Party that led SIB development	Commissioner	Existing provider	Intermediary	Investor	Specific entity formed to develop SIB	Other					
Contracting party/delivery agency	Investor-owned Special Purpose Vehicle (SPV)	Intermediary- owned SPV	Provider – owned SPV	Multi-party SPV	Provider	Joint venture	Local authority	Other			
Provider type	Single VCSE provider	Two VCSE providers	More than two VCSE providers	VCSE and public sector	VCSE and private sector						
Investor type	Single investor - direct	Single investor – fund manager	Single investor – Foundation or Trust	Multiple investors							
Commissioner type	Local authority	Central Government Department	CCG	Police/PCC	Schools	Other single commissioner	Two commissioners	More than two commissioners			
Intervention type	Prevention	Acute	Improving life with a long-term condition	Reducing high-end need							
Contracting model	Single contract	Multiple* contracts	Spot purchase	Block purchase							
Outcomes based commissioning approach	SIB	PbR									

Scale (Total value of outcome payments)	<£1 million	£1 –3 million	£3.1 – 5 million	£5.1 – 10 million	>£10 million						
Scale (Total value of investment)	<£250,000	£251-500,000	£501,000 - £1 million	£1-2 million	>£2 million						
Scale (Size of cohort)	<50	51-200	200 - 500	501-1000	1001-3000	>3000					
Scale (geographical coverage)	District/ Borough wide	County - wide	Regional	National	Multiple LA or CCG areas						
Contract Duration	2 years	3 – 4 years	5 – 6 years	More than 6 years							
Local Area Factors											
Local Authority Type	Metropolitan	London Borough	Two-tier	Unitary	Various	Not applicable					
Location	London	South East	South West	East	East Midlands	West Midlands	North East	North West	Yorkshire & Humber	Various	

** Multiple contracts refers to a SIB with the same outcomes and broad structure that involves either or both successive contracts with different commissioners, and/or a number of contracts entered into simultaneously with different commissioners.*

Table 2.7: SIBs featured as in-depth reviews and their characteristics

SIB Factor	Ways to Wellness	Reconnections	Mental Health Employment Partnership (3 SIBs)	HCT Travel Training	West London Zone
Main policy area in which outcomes are being sought	Health	Older People's Services	Multiple (Health and Employment)	Young people	Young people and Education
Party that led SIB development	Specific entity formed to develop SIB	Intermediary	Intermediary	Existing provider	Specific entity formed to develop SIB
Contracting party/delivery agency	Provider-owned SPV	Intermediary - owned SPV	Investor - owned SPV	Provider	Provider
Provider type	More than two VCSE providers	More than two VCSE providers	More than two VCSE providers	Single VCSE provider	More than two VCSE providers
Investor type	Single investor – fund manager	Multiple investors	Single investor – fund manager	Single investor – fund manager	Single investor – fund manager
Commissioner type	CCG	Local authority with 3 CCG co-commissioners	Local authority	Local authority	More than two commissioners
Intervention type	Improving life with a long-term condition	Reducing high-end need	Improving life with a long-term condition	Improving life with a long-term condition	Prevention
Contracting model	Single contract	Single contract	Multiple successive contracts	Multiple successive contracts	Single contract
Outcomes based commissioning approach	SIB	SIB	SIB	SIB	SIB
Scale (Total value of outcome payments)	£5.1 – 10 million	£1 –3 million	£1 –3 million (Total value of first three contracts)	£4.2 –7.3 million (Total value of first three contracts)	£3 –4.6 million
Scale (Total value of investment)	£1-2 million	£501,000 - £1 million	£251-500,000	£2-3 million	£1.24 million
Scale (Size of cohort)	>3000	1001-3000	1001-3000 (First three contracts)	700-1200	610-860
Scale (geographical coverage)	District/ Borough wide	County -wide	6 LA and 6 CCG areas	Three local authorities	Two local authorities

Contract Duration	5 – 6 years	3 – 4 years	3 – 4 years (per contract)	3 – 4 years (per contract)	2 – 4 years
Local Authority Type	N/A	Two-tier	Various	2 County Councils and 1 London Borough	London Borough
Location	North East	West Midlands	London, West Midlands	London, Eastern, South East	London

2.2 CBO progress against targets

The National Lottery Community Fund England Committee set a number of targets for the CBO Fund. In **Table 2.8** we list the targets, and progress achieved against them.

Table 2.8: CBO progress against targets

CBO target	Achievement as at 7 February 2018
20 more SIBs commissioned	11 commissioned, (19 commissioned as at December 2018)
CBO projects to leverage more investment than CBO contribution	Average investment: £890K Average CBO contribution: £728K
140% increase in commissioners, providers investors and active advisors	Assumption is there will be 246% increase (if 27 proposals launch, though only 11 were commissioned so far by 7 Feb 2018 – see above)
140% increase in people in need reached from a baseline of 30K	Data not yet available Expectation is this will be exceeded. Total people to be reached planned at end of 17 was 542,975
Increased knowledge and understanding amongst stakeholders	See Raised stakeholders' awareness and understanding of SIBs
Improved quality of technical support	No measurement of quality provided

Source: National Lottery Community Fund

2.3 Evidence from other SIB evaluations

Since our last update report, quantitative evidence emerged from some SIB evaluations that suggest that the interventions funded achieved positive outcomes. In particular it is worth noting the following:

- **The final report on the evaluation of the Peterborough One Service SIB** (the first SIB in the UK) estimated that the One Service reduced the number of reconviction events among those discharged from HMP Peterborough by 9.0%.[38] This level of improvement was in comparison to a cohort of similar prisoners, and was therefore a relatively rigorous level of impact[39].
- **The evaluation of the London Homelessness Bond** (which also used a rigorous evaluation approach including a comparison group) showed that the intervention had a positive impact compared to the comparison group.[40] It showed that, after two years:
  - ► the mean number of rough sleeping contacts for the intervention group was 9.2 compared to 13.9 for the comparison group;
  - ► 40% of the intervention group did not sleep rough at all in the two years after the start compared to 33% of the comparison group;
  - ► 37% of the intervention group had an arrival to long-term accommodation in the two years after the start compared to 7% of the comparison group; and
  - ► 12% of the intervention group were non UK nationals with a confirmed reconnection compared to 5% of the comparison group.
- **The second interim report from the evaluation of the Fair Chance Fund (FCF)**, which funded outcome payments for a number of SIBs aimed at vulnerable and homeless young people.[41] This found that:
  - ► of the 1,637 young people entering accommodation by December 2016, 91% had achieved a three month sustained tenancy (n= 1,491); 81% a six month sustained tenancy (n=1,331); 55% a 12 month sustained tenancy (n= 908); and 18% an 18 month sustained tenancy (n= 297); and
  - ► 25% (n=486) of all young people referred into FCF had entered employment by the end of year two. Of those entering employment in years one and two, at the end of year two 48% had achieved a 13 week full-time sustained outcome and 28% a 26 week full-time outcome

  The same report does however note that FCF projects had performed less well in terms of education and training outcomes, with only four of the projects meeting or exceeding their year one entry forecasts. In year one overall numbers entering education/training fell by almost 10%, although in year one five of the projects achieved their revised entry forecasts.
- **The preliminary findings from the Evaluation of Birmingham City Council's Step Down Programme** showed that, on average, across the first two years a 70% stability rate was achieved across the 20 placements (19 young people).[42] There was also evidence that most young people achieved greater stability than they experienced prior to the programme; some evidence of improved school attendance; and strong evidence that the frequency of engagement in positive activities increased markedly immediately after placement, though was not always maintained at the initial high level.

[38] See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/633243/peterborough-social-impact-bond-cohort-2-results-report.pdf

[39] In the context of impact evaluations, an impact is a change in outcomes that is directly attributable to a programme; also known as causal effect.

[40] See: https://www.gov.uk/government/publications/london-homelessness-social-impact-bond-evaluation

[41] See: https://www.gov.uk/government/publications/fair-chance-fund-evaluation-interim-reports

[42] See: http://reescentre.education.ox.ac.uk/wordpress/wp-content/uploads/2017/04/StepDownBirmingham_Prelim-Findings_ReesCentreApr2017.pdf

- **The qualitative study into the impact of the link worker model funded through the Ways to Wellness SIB**, concluded: *"This model of social prescribing, which takes into account physical and mental health, and social and economic issues, was successful for patients who engaged with the service."* (Moffatt et al, 2017)[43]

However, it is not possible to determine the extent to which the SIB mechanism itself led to better outcomes, or whether the same outcomes would have been achieved through a standard commissioning approach. The majority of these evaluations either did not, or could not, determine the 'SIB effect' on the outcomes[44]. For example, the evaluation of the London Harmlessness Bond commented that:

"While the findings from the impact evaluation are very positive, and clearly show that the intervention was effective against key outcomes, they do not necessarily prove that social investment and payment incentives drove the results. This is because it was not possible, within this impact evaluation, to disentangle the effect of the social investment model from the intervention service. However, the qualitative evaluation suggests that the Payment by Result (PbR) element of the SIB contract had a greater impact on the providers than the investors' involvement."

Added to this is the fact that very few of the commissioners and service providers who responded to the CBO stakeholder surveys thought that SIBs were achieving better outcomes compared to standard contracts. Just over one quarter of service providers (six out of 21, **Figure 3.4**) and just fewer than one in six commissioners (six out of 41, **Figure 3.5**) thought that the SIBs they were involved in were leading to a greater level of impact with beneficiaries than would have been achieved through a different delivery model.

One could argue that, as many of the commissioners involved in the CBO Fund evaluation reported that the SIB allowed interventions to be funded that would not have been funded otherwise (see Upfront investment), *all* of the outcomes could be attributed to the SIB, as without the SIB the intervention would not have existed. However, this was not the case for all the SIBs (such as MHEP, where some of the interventions had already been commissioned and then retro-fitted to the SIB).

However, we need to be mindful of the fact that some evaluations of SIBs have not yet been published, and so the picture may change as more evidence becomes available. Furthermore, there is very limited publicly available data on the contracts or performance of the first set of SIBs. It is important to consider this in the wider context, highlighted in our stakeholder surveys and investor breakfast meeting, that stakeholders are struggling to replicate SIBs and understand their overall effectiveness because there is limited information available on the contracts and performance. Investors in particular were concerned that such data should be published, as it will help build investor confidence and build the market.

"We should publish all the data around each SIB, specifically the value case for government. i.e. what outcomes are delivered, and how much is the commissioner paying for them." (Intermediary, comment made during CBO Intermediary Survey)

Recommendation: Stakeholders should publish real-time data on the structure, business case, performance and outcomes of SIBs, and their rationale for pursuing a SIB compared to other options, in order to support replication and increase stakeholders' awareness of the effectiveness of SIBs.

[43] See: http://bmjopen.bmj.com/content/7/7/e015203

[44] The CBO evaluation team will use qualitative research to estimate the extent to which outcome levels can be attributed to the SIB mechanism.

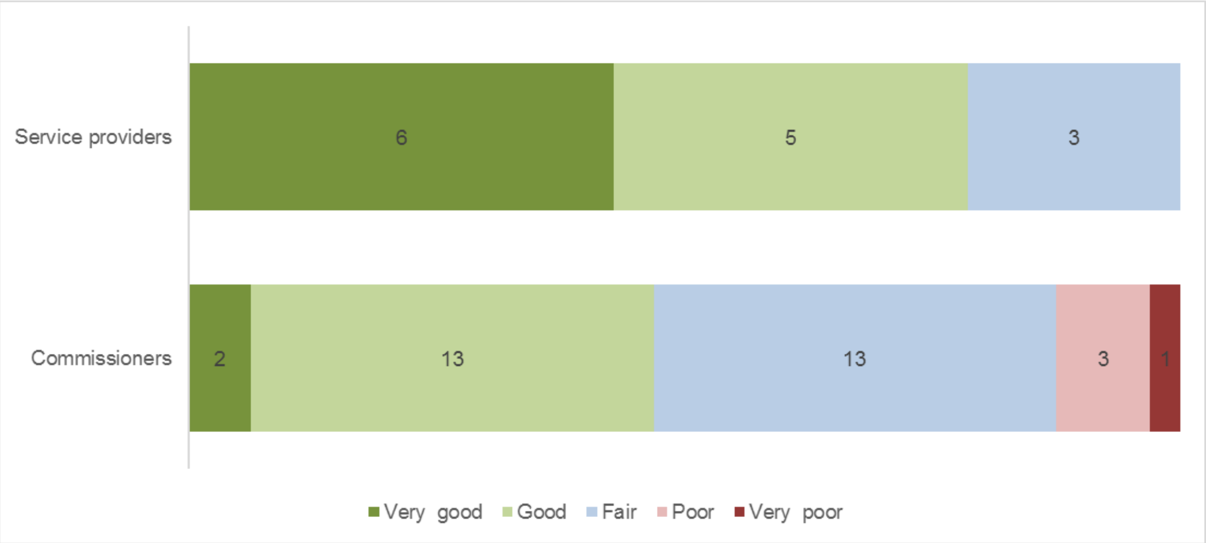
3.0 Benefits and Advantages of SIBs

This section sets out the main advantages of SIBs drawn from the evidence collected through the CBO evaluation to date. It also draws on the evidence that has emerged from independent evaluations of SIBs and their effectiveness.

In terms of the main advantages, those who have set up and are or have been implementing a SIB reported that they were resource intensive but were worth the effort because of the benefits they bring, although it is too early to state whether this additional effort leads to 'better' outcomes. Those who had prior involvement in SIBs had, on the whole, had a positive experience so far (**Figure 3.1**) and most were likely to choose to become more involved in SIBs in the future (**Figure 3.2**).

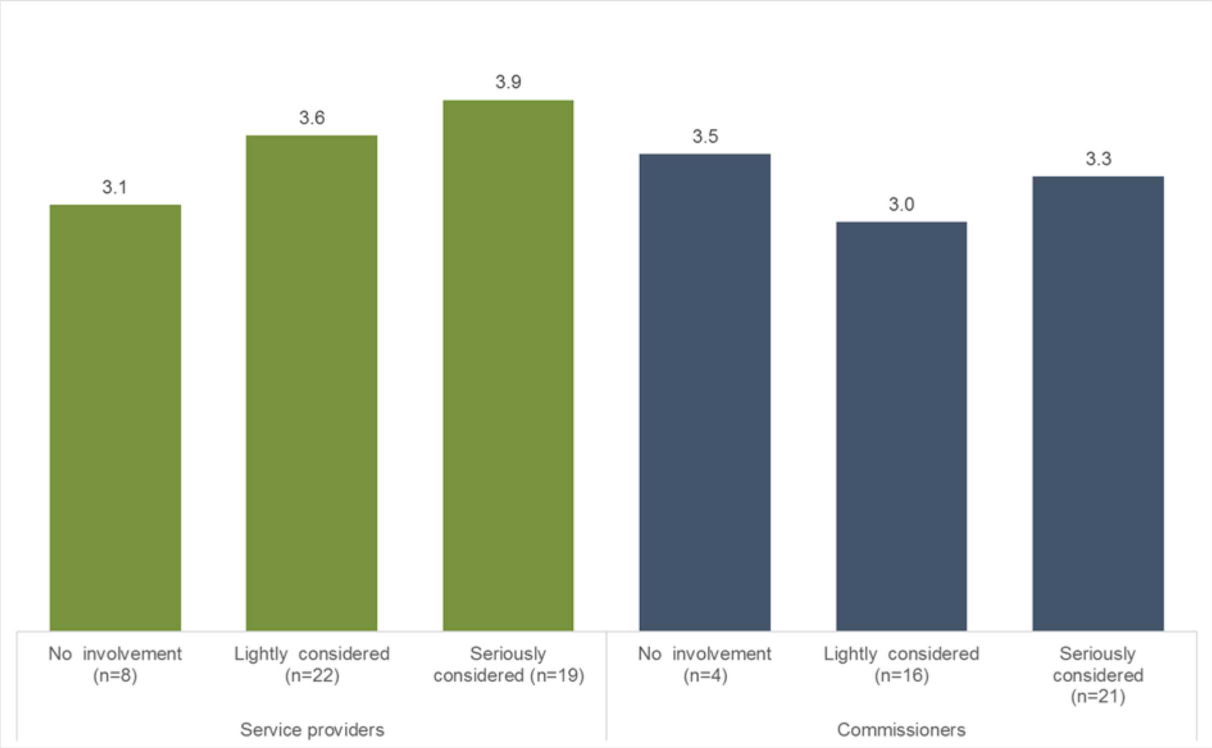
It is also interesting to note that 12 out of 13 of those involved in developing a SIB that did not become operational were also keen on developing a SIB in the future despite not doing so under the CBO Fund. It is also worth highlighting that some of those that did not develop a SIB through CBO also chose to implement the intervention through a more traditional pay for service model rather than funding it via a SIB.

Figure 3.1: Overall experience of developing or implementing a SIB



Source: Commissioner and service provider surveys. Base: Respondents involved in SIBs (commissioner n=41; service provider n=21). Not shown in chart: Four commissioners answered 'do not know'. 12 respondents did not answer the question (5 commissioners and 7 service providers).

Figure 3.2: Ratings (out of 5) of likelihood of being involved in a future SIB, by current level of involvement.



Source: Wave 2 commissioner and service provider survey. Base = not currently involved in SIBs (Commissioner n =45, service provider n =52). Average rating based on 5 point Likert Scale (1, Very unlikely; 5, Very likely). Not shown in chart: Six respondents reported 'don't know' (4 commissioners and 2 service providers). One respondent (service provider) did not answer the question.

However, the positive view on SIBs came more from investors and providers than from commissioners. The experience of service providers responding to our stakeholder survey was reported on average to be 'good' (mean rating of experience = 4.2 out of 5), which was higher than the experience reported by commissioners, which was on average 'fair' (mean = 3.4). Also, on average service providers reported a higher level of interest of getting involved in future SIBs (mean rating of interest = 4.3 out of 5) compared to commissioners (mean = 3.4).

The evidence to date suggests that the stakeholders currently involved in a SIB supported through the CBO programme perceived the main advantages as being:

- the provision of upfront investment;
- help to embed a more outcomes-focused culture in service providers; and
- more flexible service delivery.

In the remainder of this section we provide more detail on these advantages.

3.1 Upfront investment

The 2017 commissioner survey found that the main motivation for a commissioner to become involved in a SIB was that it leveraged up-front funds to invest in services, which they would have struggled to provide themselves (27 out of 41 commissioners reported this as a motivation, the most selected option) (Figure 3.3).

The funding from the investor in the SIB model can be viewed as a form of temporary funding, which is provided 'upfront' and in advance of the outcomes being achieved. This has different benefits for commissioners and providers. For a commissioner, it replaces the need for them to fund the service on a fee for service[45] basis. Commissioners reported that they found this attractive because it guaranteed they only paid for success – if the intervention did not achieve its expected outcomes the commissioners had not wasted resources on an unsuccessful intervention This 'de-risking' was seen by commissioners and providers as a critical advantage of SIBs at a time of constricting budgets in the public sector.

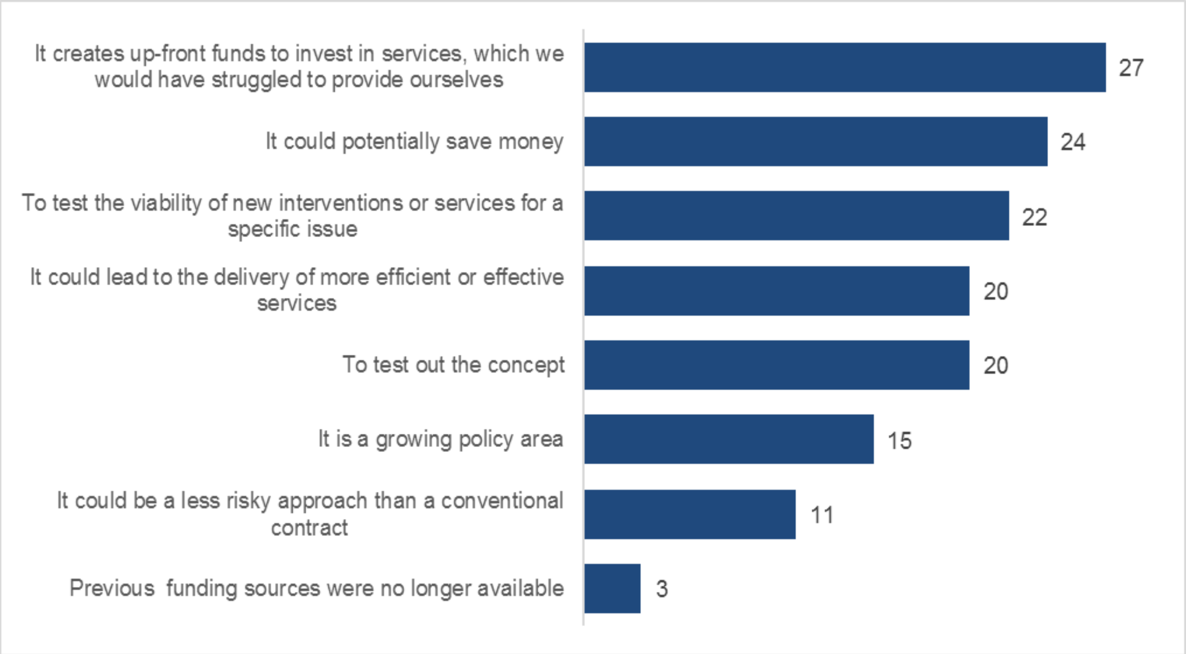
The SIB funding is seen as additional funding that enables a relatively new and untried, and therefore risky, service to be funded alongside existing provision. It thus has attractions for some commissioners because it enables 'twin-tracking' of existing, often statutory provision and a new intervention.

It is however worth pointing out that in both contexts the funding is temporary and the commissioner will eventually have to fund outcome payments. The attraction is in not having to pay for failure, and/or in creating the headroom for a new intervention to work alongside existing provision, sometimes generating cashable savings which fund (part or all of) the eventual payments.

For providers, the main attraction of a SIB model was that they did not themselves have to bear the financial risk of a payment by results contract – which would require them to incur a deficit unless and until outcome payments started to flow. This would normally require the provider to cover the initial deficit from reserves (impossible for the vast majority of VCSE providers, and many private sector providers) or raise working capital to cover initial costs in the form of a loan (possible, but risky for most providers who would be directly liable and would still have to repay the loan if the intervention did not achieve the intended results). For providers unwilling or unable to bear such risks, investors can cover the costs and themselves be the party that is at risk if outcomes are not achieved. However, it is worth adding that not all SIBs are structured to relieve providers of all financial risk, and some deals are deliberately constructed to enable or encourage providers to bear or share risk. We explore this issue further in section 5.3 – Diverse Nature of SIBs.

[45] A fee for service contract is one where payment is based on service levels or outputs delivered, rather than outcomes.

Figure 3.3 Commissioner motivations to become involved in a SIB



Source: Commissioner survey. Base: Commissioners involved in a SIB (n=41). Not shown in chart: Five did not answer the question. Six reported other motivations.

A key benefit from the commissioners' perspective is that the social investors in most cases take on the initial risk as they are the ones who usually lose their money if outcomes are not achieved. This enables commissioners to avoid taking risks and fund interventions that they would not have been able to fund otherwise. This was seen to be worth the additional cost of paying a return to the investor to access the capital upfront, not least because they were only required to pay if and when the intervention was successful.

For the commissioners involved in the HCT SIB, the WtW SIB and the Reconnections SIB the upfront investment was a significant attraction to pursue a SIB due to budgetary pressures. For example, in Reconnections the commissioners acknowledged that the social investment provided upfront finance in an area that was considered outside of their non-core services. Any services that were outside of these essential services were the ones that tended to suffer the most in times of public financial pressure. In addition, the payment for results ethos meant that there was little risk in paying for an intervention that did not prove to be effective. This meant there was less risk of 'wasting' limited public money on underperforming or unsuccessful activities. Commissioners from the HCT, WtW and Reconnections SIBs reported that, without the SIB mechanism, it was unlikely they could have commissioned the service.

In the case of HCT, the upfront investment leveraged through the SIB was structured to create incremental savings to enable contracting for travel training at scale – thus making it viable for commissioners who understood the benefits it can bring to young people but could not afford the up-front costs needed to resource a large-scale travel training programme alongside the existing specialist transport that they are statutorily required to provide. Most of the existing travel training schemes conducted prior to developing the SIB (including some run on a conventional fee-for-service basis by the commissioners of the SIB) were small scale and unable therefore to unlock the cashable savings with which to widen the service. The logic of the SIB is that the initial costs to the commissioning LAs are low, and are deferred until young people are signed off as travelling independently, when outcome payments become due. This means that they can commit to work with a larger number of young people, and the intervention can thus be commissioned at sufficient scale to significantly increase both the social and financial benefits. Scale is especially important in enabling the LAs commissioning HCT to generate enough reduction in current usage of specialist transport, to allow rationalisation of such transport, so releasing cashable savings. The SIB thus creates a virtuous circle where the scale of the SIB enables it to become self-funding.

3.2 Helps embed more outcomes-focused culture in service providers

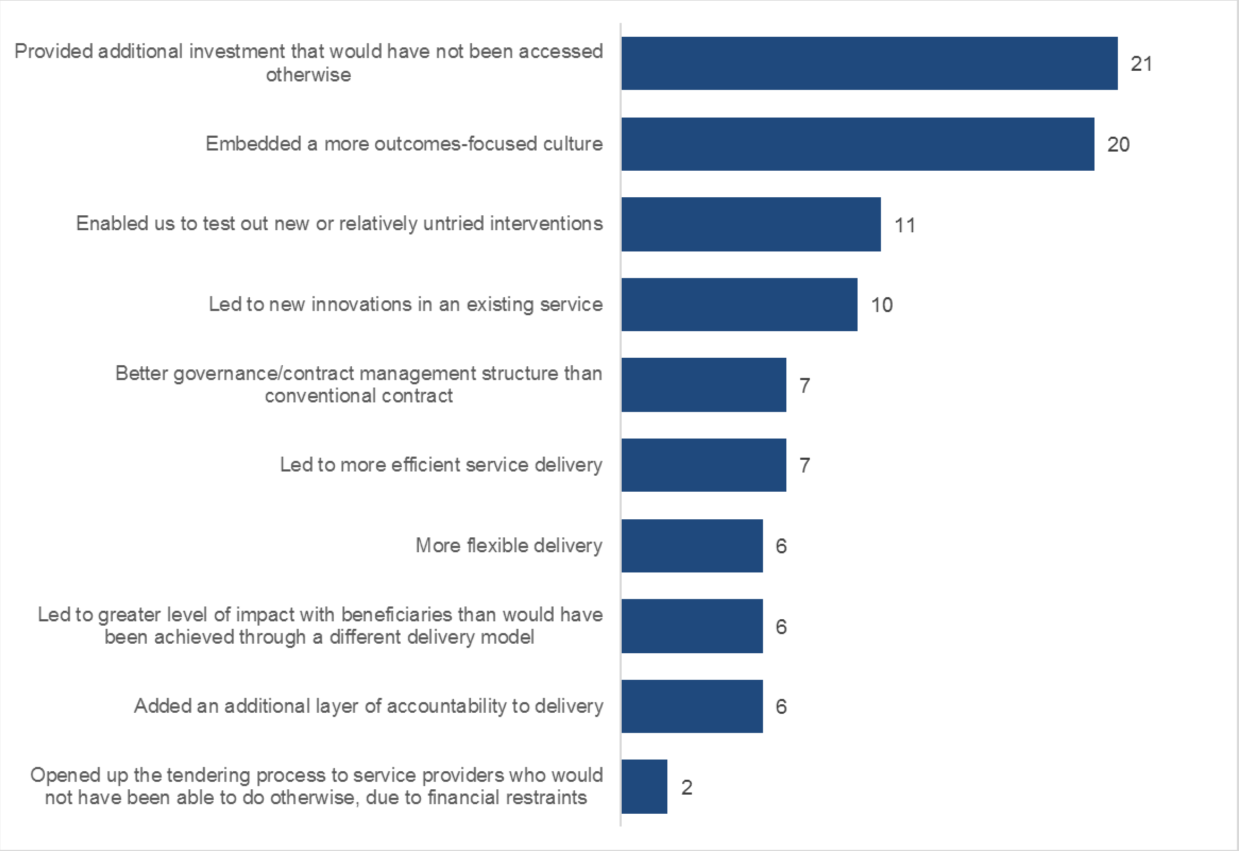
Investors, service providers and commissioners consistently reported that SIBs embedded an outcomes-focused culture in service providers. In the service provider survey this was the most-cited benefit of SIBs, with over half (12 out of 21) reporting it as a benefit (**Figure 3.4**); for commissioners this was the second most-cited benefit, with almost half (20 out of 41) citing it as a benefit (**Figure 3.5**). Embedding an outcome-focussed approach was also valued by investors and was one of the reasons why most of them (12 out of 18 investors) said it was either very likely or likely that they would get involved in another SIB in the future. The better focus on outcomes was a key attraction of the model for investors of all types, including:

- fund managers, who viewed it as a significant attraction for their fund investors;
- direct investors, who compared the SIB model favourably to a straight growth investment in a VCSE, where the outcomes-focus might be weaker and the impact achieved by investment harder to measure; and
- foundations, who saw benefits in investing in outcomes and social impact because it would provide a greater stimulus to achieving outcomes. Some felt that grants with relatively few strings attached had no mechanism for maximising social impact or comparing actual to promised performance. Some investors and foundations have got an organisational mission to drive more social impact rather than simply to promote worthy causes.

Figure 3.4: Perceived benefits of a SIB – service provider

Source: Service provider survey. Base: Service providers who are currently or have been involved in a SIB (n=21). Multiple answers possible. Not shown in chart: Seven service providers did not answer the question.

Figure 3.5: Perceived benefits of a SIB – commissioner



Source: Commissioner survey. Multiple answers possible. Base: Commissioners who are currently or have been involved in a SIB (n=41). Five commissioners did not answer the question. Not shown in chart: Three reported 'do not know/Prefer not to say'. One respondent reported 'no difference'. Eight commissioners reported 'other' benefits.

Stakeholders reported that the outcomes-focused culture had developed from the requirement to evidence outcomes. One investor described the process as *"eye-opening"* for service providers, who had to adapt delivery management in order to drive it towards outcomes effectively. Encouraging an outcomes-focused culture was also a key feature and benefit of the WtW and Reconnections SIBs.

The Health Trailblazers review[46] supported the evidence in relation to SIBs embedding an outcomes-focused culture in VCSEs. The report also made a somewhat broader point about the benefits of SIBs instilling 'market discipline" in the VCSE sector, covering elements of both better business planning and improved contract management.

The DWP Innovation Fund evaluation also strongly supported this view, highlighting that "*The funding model appeared to have created a high intensity of focus on performance across nearly all projects and PbR was widely seen as having incentivised better performance*."[47]

[46] Tan et l al, 2015. *An evaluation of Social Impact Bonds in Health and Social Care*. Policy Innovation Research Unit (PIRU), London. See: http://www.piru.ac.uk/assets/files/Trailblazer%20SIBs%20interim%20report%20March%202015,%20for%20publication%20on%20PIRU%20siteapril%20amendedpdf11may.pdf

[47] DWP, 2016. Qualitative evaluation of the DWP Innovation Fund: Final Report. DWP, London. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535032/rr922-qualitative-evaluation-of-the-dwp-innovation-fund-final-report.pdf

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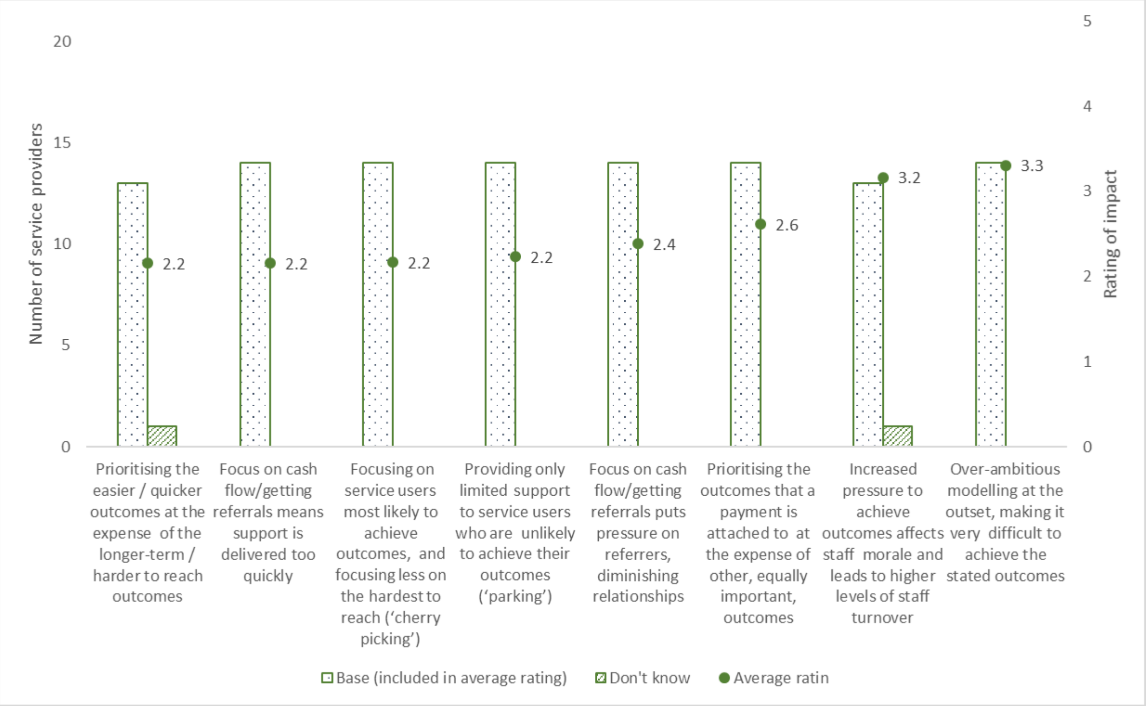
It is interesting to note, however, that an independent review of four SIBs by Daniel Edmiston and Alex Nicholls argued that, on current evidence, a SIB model was no more effective than other forms of outcome based commissioning and PbR, and therefore it was the outcomes-approach rather than the social investment itself that was arguably the key driver. They argued that: "*there is, at present, very little definitive evidence to suggest that services funded through such a mechanism lead to any relative improvement in social outcomes compared to more conventional PbR commissioning models."* This would therefore suggest that embedding an outcomes-focused culture is a benefit of all outcomes-based commissioning models, not just SIBs. Indeed, what is not always clear is why commissioners or providers opt for a SIB model rather than other types of outcomes-based commissioning (such as PbR or outcomes-based contracts where outcomes are set in the contract but payments are not attached to them). We have found limited examples where stakeholders have done a rigorous options appraisal to explore the different strengths and weaknesses of different outcomes-based commissioning approaches, and instead have chosen a SIB outright. It is our view that this is probably because SIBs are being strongly promoted and come with subsidies (via CBO and, more recently, the Life Chances Fund (LCF) and therefore other outcomes-based commissioning models are not considered.

However, this outcomes-focused culture does create additional demands on service providers, as we report in SIBs lead to increased performance management. Investors though often saw this as a positive issue that should lead to stronger results and impacts.

It is also noteworthy that the service provider survey suggested that the outcomes-focused culture could also have adverse effects. Service providers reported that the second main negative impact of SIBs was that the increased pressure to achieve outcomes affected staff morale and led to higher levels of staff turnover (**Figure 3.6**). However, the fact that service providers still reported this as the main benefit of SIBs despite this adverse effect, I would suggest that they perceived the benefits of an outcomes-focused culture to outweigh this. We need to undertake more qualitative research to understand this further, which will take place as part of our in-depth reviews of nine CBO-funded SIBs.

Figure 3.6: Service provider ratings of SIB impacts on service design and delivery



Source: Service provider survey. Base: Service providers involved in SIBs (n=41). Average rating based on five-point Likert rating (1 = Not at all; 5 = To a great extent). Respondents who reported 'don't know' or 'prefer not to say' excluded from base and average calculation. Not shown in chart: Seven did not answer the question.

3.3 More flexible service delivery

A final benefit of SIBs reported by stakeholders comes from the flexibility that service providers have to more easily adapt provision part-way through the delivery period due to the outcomes-based nature of the contract. In fee for service type projects the contracts are normally tightly defined and prescribed in relation to the activity that needs to be delivered in terms of scope, type and intensity. For a SIB, the contracts focus on the outcomes rather than the activity leading to 'room' for flexibility to respond to certain situations.

This benefit was particularly noted in the Peterborough SIB, where the final delivery model was very different to that envisaged at the outset. This is facilitated by the increased contract management mentioned later – as everyone's interests are aligned there is a desire to move quickly to adapt the delivery model when it is not working. Investors contrasted this to a more traditional commissioner/provider contract, where there can be time-consuming contract change procedures which slow down this flexibility. In Reconnections, the contract was specifically set up to ensure that the project could adapt to changing circumstances. I

It is worth highlighting, however, that flexibility has not always been stated as a benefit and strength across all of the SIBs we have looked at. It can depend on the model adopted and the level of flexibility the commissioner decides to build into the delivery process.

3.4 Conclusion

The benefits and advantages of a SIB are focussed on the role of the capital investment in a SIB from investors. First and foremost the SIB brings in upfront investment to fund projects that the commissioners in particular felt would not have existed in the absence of a SIB.

The benefits of a SIB also continue to be around stimulating a more outcome-focused culture. The majority of the main SIB stakeholders (commissioners, service providers and investors) all highlighted this as a key benefit.

Evidence from the CBO supported SIBs, as well as other SIBs, shows that the SIB model generally allows for more flexibility in delivery compared to a traditional fee for service approach. A number of SIBs have adapted to shortfalls in their performance in a way that contracting parties hoped would allow for better outcomes, safe in the knowledge that their contract allowed 'room' for flexibility and adjustment.

Although evaluators of SIBs outside of the CBO programme are cautious about positive results being attributed to the 'SIB effect', the external evaluations that this chapter draws upon have so far been generally positive in their findings. The evaluations of SIBs including those linked to Peterborough Prison and the London Homelessness project show that these interventions have had stronger results set against their comparison groups. More evidence, including evaluations that ideally isolate the 'SIB effect' from the intervention effect is required to unpick whether the benefits are because of the intervention, the payment by results mechanism, the SIB aspect or other factors.

4.0 Disadvantages of SIBs and Challenges to their Development

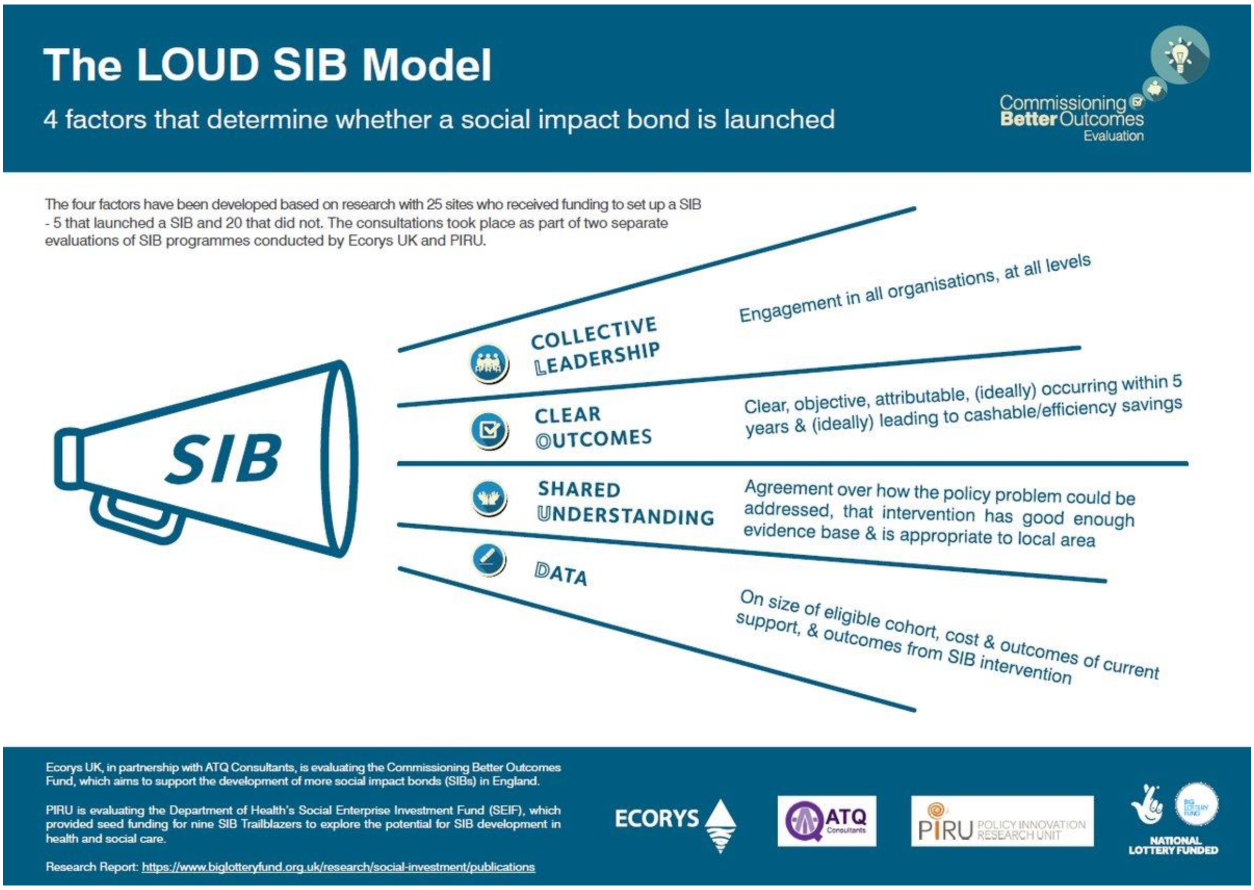
While the number and range of SIBs continues to grow, and the advantages of SIBs and an outcomes-based approach are apparently becoming more accepted, it remains the case that SIB development has, at each stage of their growth, been slower than some expected. What has changed since our last update report is that there is now more evidence, from a range of sources, as to why this is the case, and what the main challenges are to SIB development.

For example, and most importantly, the LOUD report identified that SIB proposals sometimes do not progress for a number of reasons, and are unlikely to be launched if a commissioner or provider attempts to develop a SIB without a clear focus on four key factors. These are summarised in **Figure 4.1** and detailed below:

- **Collective Leadership:** It is important that senior leaders communicate clearly and effectively with staff throughout their organisations that are involved in early SIB development and ensure that all staff members are engaged and committed to the process.
- **Clear Outcomes:** Choosing outcomes that are clear and attributable[48] to the intervention is an important part of the development process. Ultimately, the commissioner needs to be satisfied that the outcomes are worth paying for, and the providers (and investors) need to believe that the outcomes are achievable.
- **Shared Understanding** of the policy 'problem' among commissioners and, to a lesser degree, providers, intermediaries and investors, and how it can credibly be addressed, is crucial. If there is disagreement among stakeholders, and a view that an alternative option is available – potentially at a lower cost – that may not require commissioning at all (i.e. the solution is to reconfigure services delivered by the commissioning organisation), it is less likely that a SIB will proceed.
- The availability of the right **Data**, especially on the target cohort, the outcomes they are currently achieving and the current cost of supporting them; and the outcomes likely to be achieved by the intervention, including when these would take place and for how long they are likely to be sustained. Without these data, it is very difficult to develop the business case for a SIB.

[48] Attribution is the ability to link a specified intervention with the achievement of a specified outcome.

Figure 4.1: The LOUD SIB model



There is further evidence from the other research that we have done since the last update report that these four factors are important, and that challenges to putting them in place need to be overcome for SIBs to be successful. For example, both the SIBs we reviewed in depth since the last report (the West London Zone (WLZ) and HCT SIBs) identified the challenges - and notably the criticality of successful engagement of stakeholders - to achieving a common understanding that a SIB is the right approach. In the case of HCT it was clear that the successful SIBs (with Lambeth and Norfolk) required much local stakeholder engagement to launch successfully.

Our research has also helped us develop a more nuanced view of the reasons why SIBs are challenging to get off the ground, although some of the factors that we have previously identified remain important. In the rest of this section, we highlight these factors and how our thinking has developed and changed, based on the views of commissioners, service providers and investors either considering, developing or involved in SIBs. These parties report that the main challenges to SIBs (with some changes in their relative importance and scale of impact) continue to include:

- length of time to develop;
- relatively large set-up costs;
- complexity and lack of understanding of key parties;
- agreeing contracts to suit all parties;
- limited commissioner capacity to develop SIBs; and
- Policy uncertainty.

We describe each of these in further detail below.

4.1 Length of time to develop

SIBs can still take a very long time to develop. **Table 4.1** shows that the SIBs that featured in in-depth reviews took between 2 and 3 ½ years to develop (although please note that the timings shown relate to specific commissioner contracts where indicated). Many reported this was longer than they expected. For example, from inception to implementation, WLZ took around 2 ½ years to develop, and in our in-depth review we reported that the core development process *"took longer than expected (18 months), as it proved more challenging to develop a model that was attractive to social investors and one that the commissioners would buy".* The HCT SIB with Lambeth took somewhat less time to develop, but still took longer than expected despite a deliberately simple SIB model and outcome payments structure.

What is emerging more clearly from our research is that these long lead times do not always reflect the challenges of SIB development per se, and are in some cases the inevitable result of:

- **putting in place arrangements that are new to many people and require the engagement of multiple stakeholders in a complex project.** Both WLZ and HCT faced this challenge and in the latter case it was clear that stakeholder engagement would have taken some time even if a SIB model had not been used; and/or
- **incomplete understanding of the issues faced by other parties to the SIB contract.** To again take the HCT example both commissioners reported that other parties did not seem to understand that putting in place complex contracts for new services took time, especially when they had to comply with statutory local government procedures.

Since these factors, which we explore in further detail below, would to some extent arise in any complex contract, the expected benefits of SIB replication have been slower to come through than some expected. While there has been more learning about SIB development and much more guidance has become available, these do not mitigate the challenges of successful stakeholder engagement; even in policy areas where there have now been a number of successful SIB implementations (notably relating to children in or on the edge of care).

Table 4.2: Length of time to develop a SIB

	Ways to Wellness (WtW)	Reconnections	MHEP (Staffs/Tower Hamlets)	HCT (Lambeth)	WLZ (Hammersmith & Fulham)
Total time from inception to implementation	3 ½ years	2 years	21 months	16 months	2 ½ years
Time to develop SIB specifics	18 months	10 months	Unknown	12 months	18 months

Source: CBO in-depth reviews

There was a general perception amongst stakeholders within organisations trying to develop the SIB landscape that the time it takes to develop a SIB could be reduced by adding more pressure and shortening deadline dates. There is some evidence from the evaluation that this could have a positive effect in some cases. For example, our research amongst CBO applicants found that the long time allowed to develop the SIB meant that some applicants were not prioritising the SIB development until nearer the deadline. It might therefore be inferred that such applicants could and would complete development more quickly if deadlines were shortened. However, we would caution against trying to reduce the development time too much, since the CBO applicant and intermediary surveys revealed that some applicants ran out of time to develop their SIB, and more did not have enough capacity to complete their development; shortening the timescales may exacerbate both these problems.

"Timing constraints made testing more difficult due to the short period between securing the [Development Grant] and the date to spend it by." (Commissioner, comment made during CBO Applicant Survey)

"The timescale to develop the SIB (3 months) impacted on decision-making - more time would have enabled more discussion/ debate when the Business Case went through the final decision-making processes at the end of June." (Intermediary, comment made during CBO Intermediary Survey)

In addition the CBO Fund allowed applicants to defer their application if they needed more time to complete it, so the tight timescales referred to above may have been internal, with applicants running out of time even though a deferment was available.

4.2 Large set-up costs

In part because of the long development periods and challenges of multiple stakeholder engagement, SIBs continue to incur large set-up costs. Through our indepth reviews of a selection of the CBO SIBs, we can see that on average SIBs cost £150,000 in direct costs to set up (**Table 4.2**) and some commentators have pointed out that there has been considerable subsidy of the external input needed by SIBs developed to date in general. Further, these costs also do not capture the indirect costs of internal stakeholder time; our evidence suggests this is likely to have been high:

"Used a lot of additional in-kind resource from all parties." (Service provider, comment made during CBO Applicant Survey)

Table 4.3 SIB set-up costs

Reconnections	MHEP	HCT	WLZ
£200,000	£150,000	£101,000	£150,000

Source: CBO in-depth reviews

It is worth noting that those involved in SIB development whom we have consulted, mostly reported that the costs of development were justified and not excessive in view of the complexity of the arrangements that were being put in place

Furthermore, those we have consulted asserted that the costs of development were in general falling, although we do not yet have evidence from implemented SIBs to support this. Some of the investors interviewed for the investor survey said that their costs were falling due to replication, for example because local SIBs were using rate cards for outcome payments that had been previously developed by central government. The costs were also said to be falling when SIBs were in the same or similar policy areas as previous contracts, although these benefits accrued only to the relatively few developers with previous experience in similar areas on which to draw. Commissioner development costs are also likely to be lower (and investor costs almost certain to reduce) when a SIB model developed with one commissioner can be successfully replicated with further commissioners in other localities. Both the HCT Travel Training SIB (led by a provider and funded by Bridges Fund Management) and MHEP SIB (led by an intermediary and funded by BII) are good examples of SIBs that offer this route to replication.

Additionally, one commissioner responding to the commissioner survey reported that they required less external support when they developed their second SIB because of the internal skills they had learned from being involved in the first one:

"As [we] had been involved in commissioning the first SIB we did not require that much support for the second SIB." (Commissioner, comment made during commissioner survey)

What is not yet clear is whether the expectation that SIBs can be developed more cheaply will turn out to be true in practice. It is worth noting that stakeholders interviewed in 2014 also felt that SIB development costs would reduce, and to-date there is only limited evidence to suggest they have. Some investors interviewed were also concerned that the lowering of development costs would not prove to reduce costs significantly in the longer term, and might replace transparent development costs paid to third parties with similar or even higher hidden costs for commissioners, providers and, especially, investors.

4.3 Complexity and lack of understanding of key parties

In our last update report we highlighted three separate issues that were inhibiting SIB development:

- Their inherent **complexity** and involvement of multiple parties (investors, commissioners, intermediaries and service providers) along with the challenges of using outcome based commissioning, often for the first time.
- The **lack of understanding of investors**, especially among commissioners, and misconceptions about why and how they invest, and what returns they expect.
- The specific challenges of **internal engagement** with stakeholders and decision makers.

Our more recent research suggests that these factors are continuing to challenge successful SIB development, but that they are not properly different or separate issues. Rather they are all part of a larger picture whereby SIBs involve a range of parties, all of whom have particular interests that need to be accommodated before the SIB development can proceed successfully. This was also identified by Lowe et al, who undertook research into the WtW SIB:

"The SIB system brings together a wide range of actors across different institutional and organizational fields and is therefore comprised of multiple competing and sometimes contested logics." (Lowe et al, 2018)[49]

This is why the 'shared understanding' identified in the LOUD report is so important. The relationships between, and shared understanding of, the four key parties (commissioner, service provider, investor and, where present, intermediary) is important, but there are also relationships within these entities, and with other organisations, that can be equally critical. Our research has revealed the potential importance of, and sometimes significant challenges in, the following areas:

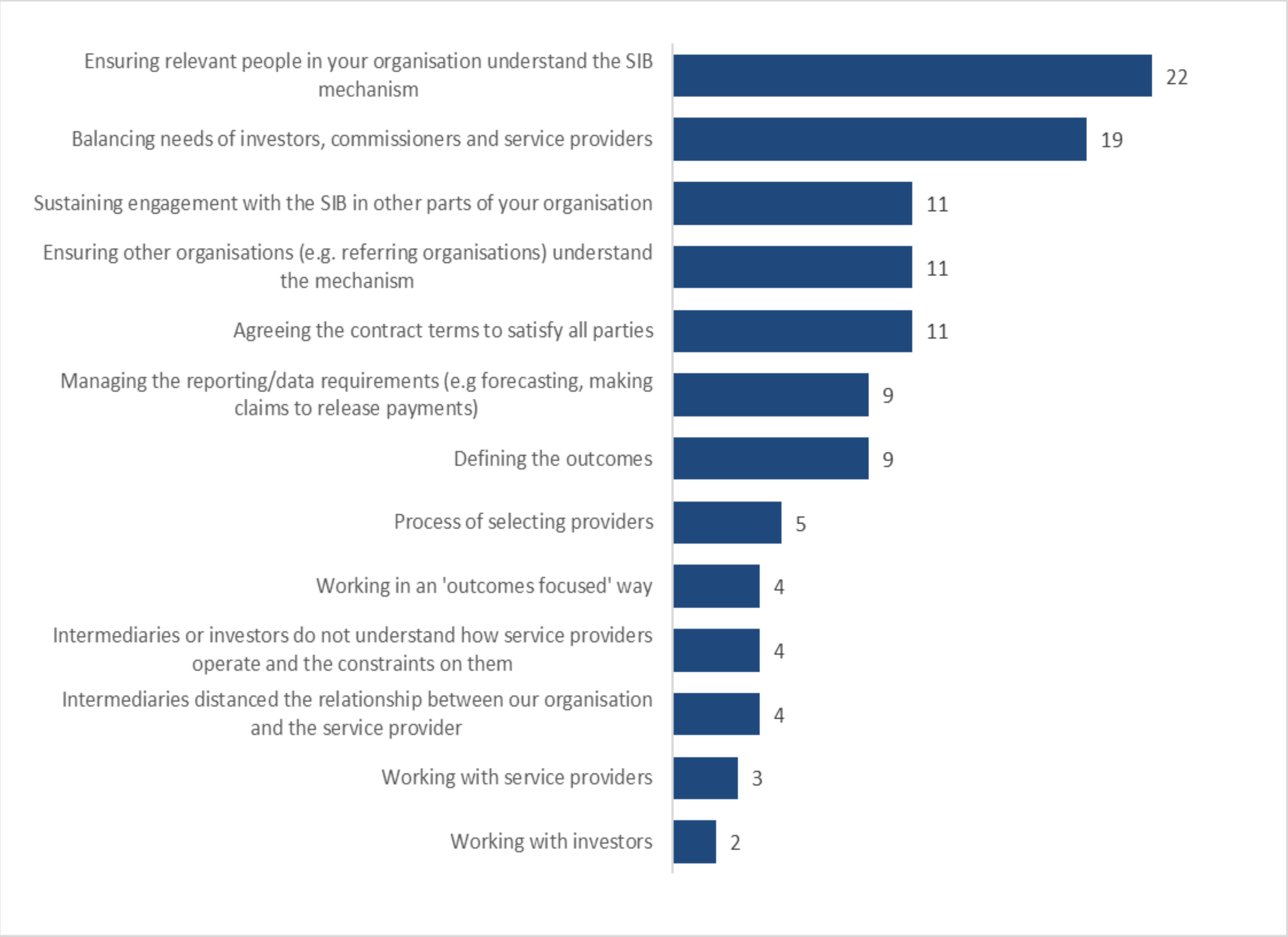
- Commissioners' and providers' understanding of the role of the investor
- Understanding of SIBs within and across commissioning organisations
- All parties understanding the constraints sometimes placed on commissioners
- The relationship between providers of interventions and those making referrals to them.

[49] Lowe, T, Kimmitt, J, Wilson, R, Martin, M, Gibbon, J. (2018) *The Institutional Work of Social Impact Bonds.* Working Paper.

Indeed, in the commissioner survey the most commonly-cited challenges all related to these points **(Figure 4.2**). For example, over half of commissioners reported that challenges included ensuring relevant people within the commissioning organisation understood the SIB mechanism; and balancing the needs of investors, commissioners and service providers.

These four challenges are detailed further below.

Figure 4.2: Perceived challenges in implementing and developing SIBs – commissioner



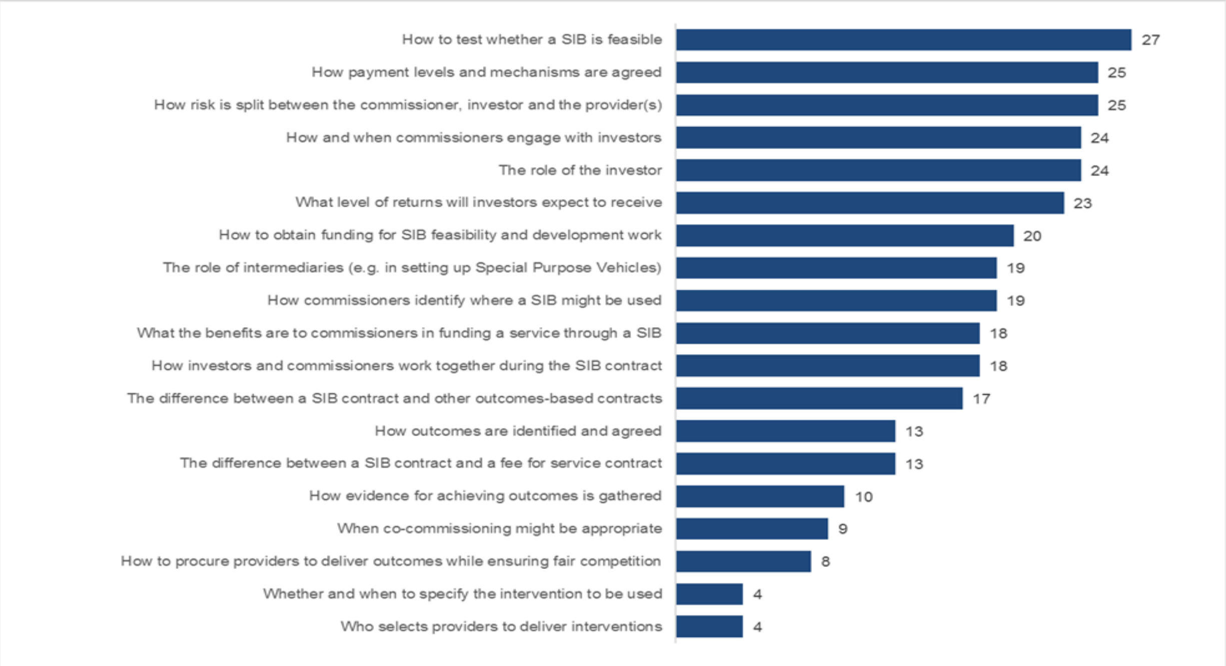
Source: Commissioner survey. Base: Commissioners involved in a SIB (n=41). Seven did not answer the question, one commissioner reported 'no challenges', one reported 'prefer not to say. 11 other challenges were specified that were not listed.

4.3.1 Commissioners and providers understanding the role of the investor

In the 2017 wave of the stakeholder surveys, the main areas commissioners and service providers reported not understanding related to investors. Over a third of commissioners (24 out of 61) reported that they did not fully understand the role of the investor (**Figure 4.3**) and almost half of service providers (13 out of 28) did not fully understand how providers engaged with investors/seek investment (**Figure 4.4**). Commissioners and service providers reported similar levels of misunderstanding in the 2014 survey wave.

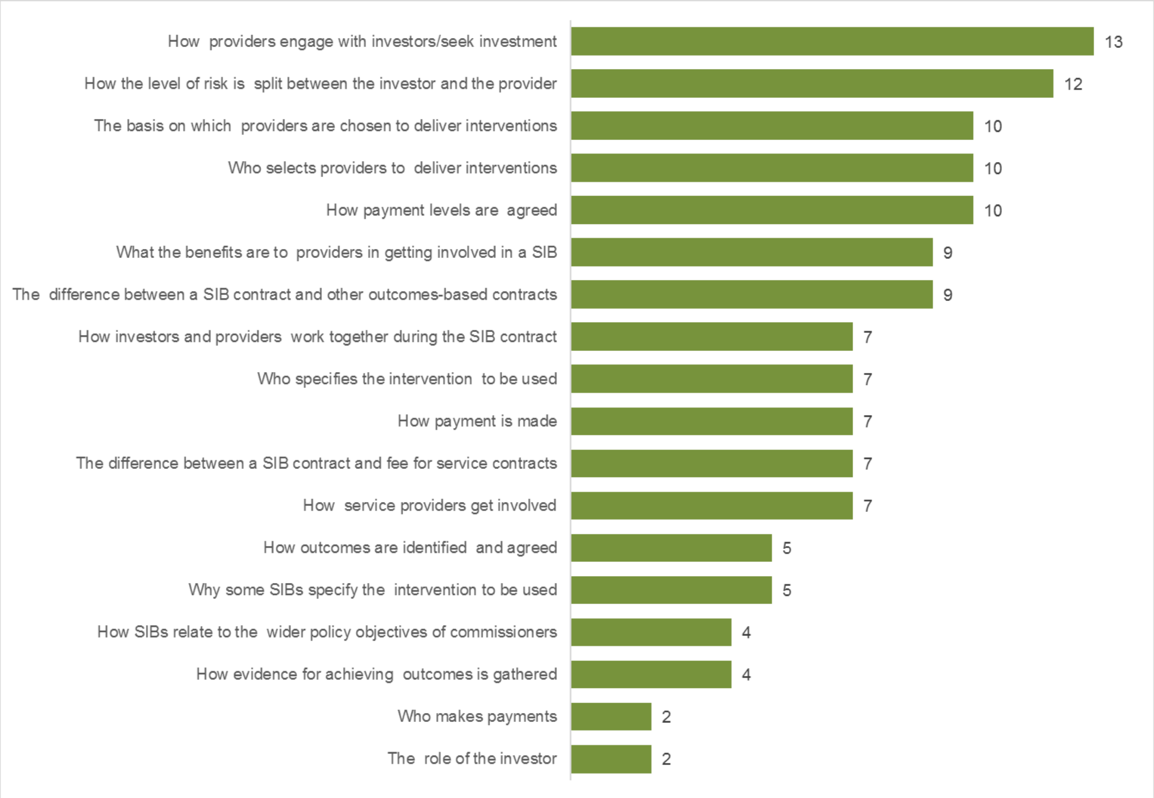
It is somewhat surprising that levels of understanding about investors have not improved, since the CBO Team (and by extension the LCF Team) has made considerable efforts to improve investor engagement and commissioner awareness (e.g. enabling investor introductions with lead applicants and encouraging investor presence and presentations at events). In addition, investors themselves started to take a more proactive role in helping others (especially commissioners) understand how they worked and their motivations for investment. Despite these efforts, there is no evidence in the evaluation that commissioners' overall understanding of investors has increased. Some commissioners interviewed were wary of the role of investors in public sector contracts, misunderstood or were suspicious of their social motivation, and/or were reluctant to pay what investors regarded as a reasonable return (especially when returns are largely or entirely contingent on outcomes being achieved).

Figure 4.3: Elements of SIBs not understood by commissioners



Source: Commissioner survey. Base: Respondents with an understanding level reported as fair, poor or very poor (n=61). Multiple responses possible. Not shown in chart: 14 respondents reported 'all aspects', one reported 'don't know, four reported 'other responses':

Figure 4.4: Elements of SIBs not understood by service providers



Source: Service provider survey. Base: Service providers who rated their knowledge of SIBs as fair or less (n=28). Multiple responses possible. Not shown in chart: One respondent reported 'none of the above' and six respondents reported 'all aspects'.

We believe the lack of understanding remains largely a problem caused by a lack of transparency. One investor interviewed for the investor survey remarked that a commissioner with whom they engaged directly had been surprised at how approachable the investor was, and at their genuine commitment to social change.

"The commissioner that we met seemed slightly surprised that we didn't have horns." (Investor. Comment made during investor survey)

Other investors commented that commissioners (and other stakeholders) often seemed unaware of the way investment worked and how it might affect what they ultimately had to pay: Among comments made to us by investors were that commissioners did not seem to understand well (or sometimes at all) that:

- the way capital is structured in a SIB means that there is sometimes no sensible way to express the deal as having a fixed 'rate of return' as if it were a simple loan – especially if the investor's 'return' forms part of the outcome payments, which are variable and not guaranteed;
- the amount of risk they wish to transfer will attract a premium. For example, if commissioners wish to defer outcome payments for a long time, refuse to guarantee minimum referrals, or set a payment level which requires very high levels of performance, the investor is being asked to bear more risk and will expect a higher reward; and
- the 'returns' on social funds are likely to be considerably lower for investors than those assumed (and promised to primary investors) from other types of investment fund.

The fact that such fundamental misunderstandings are still occurring suggests that suspicion, misconception and misunderstanding would reduce if investors were more open with commissioners and others. It might also reduce if there were clear and easy-to-understand guidance available to commissioners on what investors do and how they do it, how investments can be structured in different ways, and what the true costs and benefits of investment might be depending on how risk is shared with the commissioner (or, in some circumstances, with the provider).

Recommendation: Provide independent guidance on how commissioners and service providers could engage with investors depending on the role sought from the capital, and when, how and why some investors seek to split the risk in SIBs between stakeholders, rather than carry it all themselves

4.3.2 Understanding of SIBs within and across commissioning organisations

Our evaluation has found that project teams directly involved in SIB development, typically in technical commissioning or service areas, have usually had a good understanding of SIBs. This has often developed through working with external advisors and having studied available guidance. However, levels of knowledge and understanding in other parts of the organisation – such as Finance, Legal and Procurement – have oftentimes been much lower. This variation in levels of understanding can lead to delays in SIB development or even to SIBs being completely derailed. This is one reason why establishing a shared understanding of the problem among all these departments as well as between parties, from the outset, as identified in the LOUD report, is so important. Furthermore, the problems of poor engagement can be exacerbated by frequent changes in personnel, which can cause further delay as new managers are engaged, and appraised of the project, and have their issues and concerns addressed by the project team.

Examples of where this problem occurred include:

- WtW, where a lesson learnt was that the procurement[50] and contracts team were not fully engaged from the outset, which led to delays in procuring service providers;
- another SIB examined in an in-depth review, where late and possibly inadequate engagement of legal expertise meant that the proposed contract did not make enough provision for the specific requirements of an outcomes-based contract ; and
- HCT, where the development and contracting process within Norfolk was delayed first by the need to bring on board children's services colleagues, and then (and more seriously) by the time it took to engage the local schools.

In order to address this, those involved in developing SIBs need to bring their colleagues on board as soon as possible and ensure that they are up to speed on the proposal and its benefits and risks.

4.3.3 All parties understanding the constraints sometimes placed on commissioners

As already mentioned above, other parties to SIBs, and also external funders and influencers such as the National Lottery Community Fund, Department for Digital, Culture, Media and Sport (DCMS) and other policy makers, can become impatient with the pace of SIB development or other factors that appear to inhibit progress. Commissioners interviewed felt this was due to an incomplete understanding of the

[50] Procurement is the acquisition of goods and services from third party suppliers under legally binding contractual terms. Such acquisitions are for the direct benefit of the contracting authority, necessary for the delivery of the services it provides or the running of its own business. Public sector procurement is normally achieved through competition, and is conducted in line with the government's policy of value for money and in line with the Public Contracts Regulations 2006.

constraints under which they must operate, as public bodies subject to both internal and external scrutiny. It is however worth noting that many chose to apply relatively late to the CBO Fund, thus limiting the time available to them in some cases, and putting more pressure on themselves than they needed to.

"[We] could have done with more time. A lot of the time was taken up developing data to inform the SIB. By the time the model was ready there was not enough time for making the case across the various strands of the LA, many of who were reluctant to engage until there was a close to final version." (Service provider, comment made during CBO Applicant Survey)

4.3.4 The relationship between providers of interventions and those making referrals to them

The relationship between commissioners and providers and those making referrals into the SIB programme is crucial and needs to be fully analysed and understood by all parties. In addition, assumptions about the number and ease of making referrals need to be robustly tested when developing the business case. Investors whom we surveyed stressed the important ramifications of the assumptions made about referrals and the risk to SIBs if referrals are at a lower level than forecast in the business case, or if those referred have different characteristics to what was expected. Based on what investors have told us we expect that the extent to which SIBs have achieved the levels of referral expected and forecast will be an area of scrutiny when we undertake second visits to SIBs that are the subject of indepth reviews under this evaluation.

Attendees at the learning seminar observed that all of these four points (commissioners and providers understanding the role of the investor; understanding of SIBs within and across commissioning organisations; all parties understanding the constraints sometimes placed on commissioners; and the relationship between providers of interventions and those making referrals) highlight that SIBs require organisations to work quite differently, and this is sometimes not recognised. They felt that SIBs are seen as a new way of buying an intervention when really they are about systems change, and this requires cultural transformation. They felt the solution was to ensure the expectations around cultural transformation are overt, and to engage all necessary parts of all organisations as early as possible. This includes using competitive dialogue to communicate between commissioners and service providers.

Recommendation: Stakeholders developing SIBs need to recognise and make clear that the SIB will require a cultural transformation and way of working that is focussed on all parties' involvement in systems change; to achieve this they must engage all necessary parts of all organisations as early as possible to work out what tools and attitudes they need to apply in their work in pursuit of this.

4.4 Agreeing contracts to suit all parties

One of the issues we highlighted in our last update report was the difficulty of aligning the different interests of the multiple stakeholders involved in SIBs so that a contract acceptable to all parties can be agreed. Our research indicates that this remains an extremely important issue and a frequent challenge. The most important finding from our research relating to contracts is that they must contain the appropriate terms to make them suitable for an outcomes-based approach, in which risk is transferred away from commissioners whilst securing a viable deal for all parties. Without such clauses there will either be a total contract failure or substantial work will be needed to put right any contract failings. Examples of this challenge include:

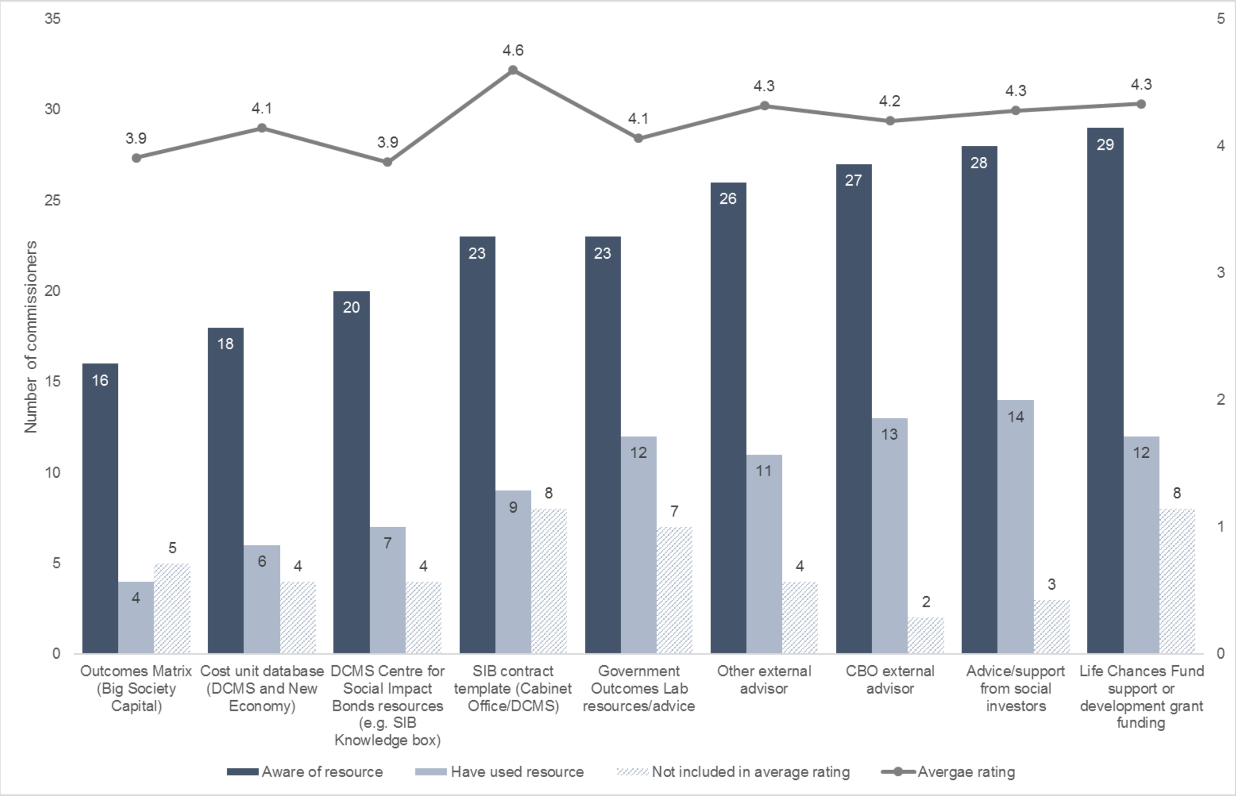
- Investors surveyed said that the details of the contract (and especially the outcomes to which payment is linked) remained the single most important issue in determining whether a successful deal would be done. One leading investor estimated that the contract terms would receive around 60% of their focus during due diligence[51].
- Our commissioner survey showed that a number of commissioners did not fully understand how to achieve the right balance of risk between parties to the contract. This was the second most-commonly cited area commissioners reported not fully understanding, with two fifths of commissioners (25 out of 61) saying they did not fully understand this.
- In one instance, after the award of contract, the investors realised that the local authority contract was missing many of the key clauses. While the investors were able to resolve the issue with help from their legal team, this caused delays to the original SIB timescales.
- In another instance the failure to use the right contract led to a SIB not being launched. Specifically this related to not using a form of contract that reflected the unique nature of an arrangement which links payment to outcomes, such as the treatment of contingent liabilities on contract termination.

A particular issue for those agreeing contracts is whether or not to use the Template PbR/SIB contract that was originally developed by the Cabinet Office and has been used by a number of organisations to develop SIBs. A number of stakeholders have found this contract template very useful. Indeed, on average commissioners responding to the commissioner survey rated it as 4.6 out of 5 in terms of usefulness; it was rated as the most useful resource, more so than support from investors or external advisors (both receiving an average rating of 4.3) (**Figure 4.5**). However:

- awareness of the contract was low compared to other types of support;
- some commissioners have indicated that they were unable to use this contract, due to internal insistence on a standard form of contract or for other reasons, such as the terms of their insurance; and
- others who have used the contract have found it unduly detailed and onerous for their needs. For example, both the commissioners of the HCT Travel Training SIB thought that the contract was too long and detailed and that it would have been better to add specific clauses to their standard contracts.

[51] Due diligence is the process whereby an organisation or company's strengths and weaknesses are assessed in detail by a potential investor with a view to investment

Figure 4.5: Commissioner use of resources and views on helpfulness



Source: Commissioner survey. Base: Commissioners involved in SIBs (n=41). Average rating based on five-point Likert rating of helpfulness (1,= Very unhelpful, 5 = Very helpful). Rating completed by commissioners who were at least aware of resources. Not included in average rating: Commissioners who reported 'don't know' or 'prefer not to say'. Not shown in chart: Five commissioners did not answer the question.

It is probable that this issue will resolve itself over time, as commissioners and their legal and procurement teams find a happy medium between the standard template contract, which some regard as overly prescriptive and detailed, and conventional contracts, which put the whole SIB contract at risk. Indeed since our research was conducted guidance issued by GO Lab[52] on the implementation of SIB contracts has aimed to address this, and identify the main areas in which a SIB contract needs to be different from a fee for service contract and the pitfalls to avoid. However, it remains paramount that commissioning teams understand the critical importance of reflecting the unique features of an outcomes-based contract in their documentation.

Recommendation: Ensure commissioners are aware of what the essential elements of an outcomes-based contract are, and the importance of building the right contract terms into SIB contracts, even if they do not use the template contract.

[52] https://golab.bsg.ox.ac.uk/guidance/technical-guides/awarding-public-contract-social-impact-bond/

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4.5 Limited commissioner capacity to develop SIBs

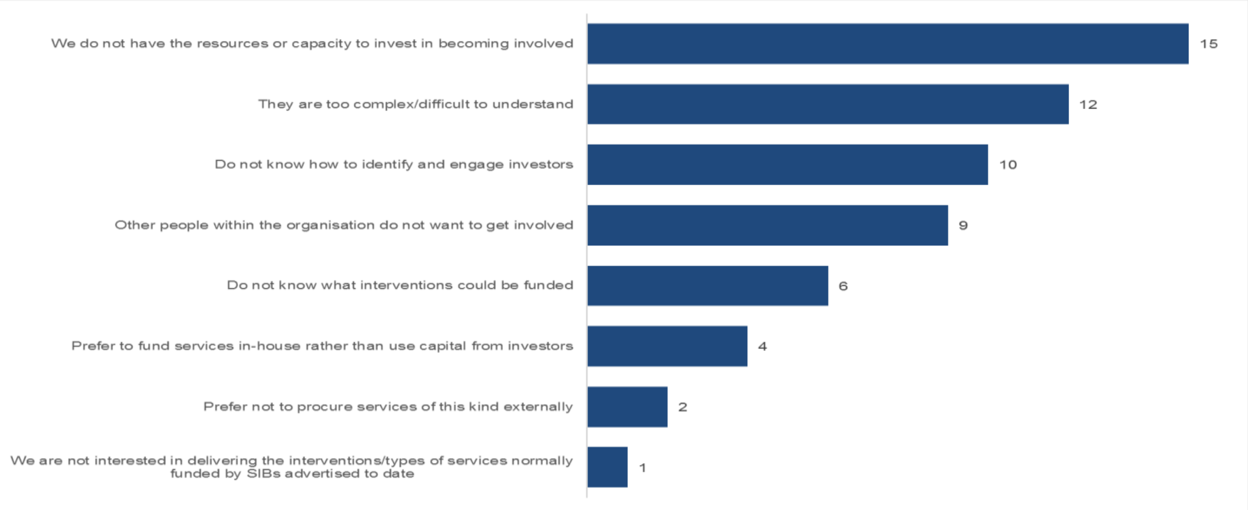
It is becoming clearer that at least some commissioners lack the capacity to develop SIBs as thoroughly and effectively as is necessary to ensure they are successful. This compounds, and to some degree underpins, the four challenges listed above (length of time to develop, large set-up costs, complexity and lack of understanding of key parties and agreeing contracts to suit all parties).

This challenge came out strongly in the 2017 commissioner survey. Over half of commissioners not involved in SIBs but interested in becoming involved (15 out of 28) reported that one of the barriers to becoming involved was they did not have the resources or capacity to invest in developing a SIB (**Figure 4.6**). This was the most commonly-cited barrier.

This was corroborated by our consultations with organisations that explored, but did not launch, SIBs. Furthermore, this was also identified in the CBO applicant survey, in which one commissioner surveyed reported:

"We weren't able to proceed due to capacity."

Figure 4.6: Commissioners' perceived barriers to becoming involved in a SIB



Source: Commissioner survey. Base: Commissioners currently not involved a SIB but interested in becoming involved (n=28). Multiple answers possible. Not shown: Three commissioners reported 'other responses'.

There is also evidence that when commissioners do develop SIBs, their limited capacity prevents them from fully engaging in the process. For example, HCT were leading the development of their SIB, including analysis of commissioner data. They became concerned that they were making assumptions that were being too easily acceded without scrutiny by the commissioners – even though they were likely to have major implications for the commissioners if the assumptions later proved to be incorrect. This has the potential to lead to challenges later on in the SIB delivery, such as the challenge of being held to the initial business case, as we report on later.

It is important to note that often quite generous Development Grants, and a number of other sources of advice including CBO Funded central support contracts, were in place precisely to address pre-existing concerns about commissioner capacity; These measures appear to have mitigated but not entirely resolved the commissioner capacity problem. This is due in part to the issues of complex, multiparty engagement referred to above. Some of this engagement – and the essential commissioner procedures that are not well understood by other parties – cannot be avoided and cannot easily or at all be delegated to an external advisor. In our LOUD report we concluded that: *"local commissioners are going through a turbulent time and lack the capacity to gather this information [to develop the SIB business case], even when they receive sizeable grants from organisations".*

The effect of low commissioner capacity can be seen in the efforts that some investors have been making since our last update report to become more involved in the co-design of SIBs, rather than waiting for prospective contracts to be brought to them by providers or intermediaries. One contributor to the investor survey reported that they were doing this in part because they saw promising projects that they would be prepared to back in the CBO pipeline, but too many of these were falling by the wayside before they became involved – i.e. they did not reach the stage where they became an investable proposition. This investor had therefore concluded that they should get involved at an earlier stage to see if they could help[overcome capacity issues or other blockages.

4.6 Policy uncertainty

In our last update report we identified concern, especially among investors, that policy changes might affect the measurement of impact. Ultimately this could affect the potential payments for outcomes which might or might not be made. The impact of policy changes is potentially greater in a SIB context than in conventional contracts because all, or a high proportion, of payments are tied to performance. In addition SIB contracts are typically longer than conventional contracts in social policy areas, and take longer to develop, so there is greater risk of major policy change occurring that could not have been foreseen at project inception (including a change of government because the SIB crosses the election cycle).

While this remains a live issue, we would note that policy uncertainty was not an issue that was widely highlighted in our 2017 surveys with investors and others. It is possible that those developing SIBs have become more adept at setting outcome metrics and other parameters for SIBs in a way which makes them less susceptible to external change; or they have simply accepted this risk.

4.7 Ways of overcoming some of the challenges

Some of the challenges of SIBs and how they might be overcome were discussed at an 'investor breakfast' workshop that we held with selected social investors in autumn 2018. The main findings from this were summarised in a blog published by the evaluation team after the event, which can be found here. The most important findings were that investors were of the view that the challenges of both stakeholder engagement and of high SIB development costs could be in-part overcome by encouraging replication of SIBs (so reducing transaction costs as elements such as the outcome metrics and payments are replicated and thus do not have to be designed from scratch,) and the development of SIBs at greater scale (as the transaction costs are relatively lower). Investors also felt that both these objectives (and especially replication) could be supported by greater sharing by commissioners of detailed information about past SIBs, thus making it easier for others to develop similar SIBs without reinventing the wheel. There is thus support for greater transparency by both commissioners and investors, in order to make the SIB process easier, quicker and cheaper.

Secondly, the WLZ SIB is a good example of how a SIB can be launched when elements of the LOUD characteristics are absent. The LOUD research identified that multiple SIBs could not be launched because they lacked enough evidence and information through which to build the business case; meaning it was too difficult to create a prediction of the likely outcomes achieved that investors would be willing to invest in. The WLZ SIB overcame this problem in three ways:

- **Using partial 'first-loss capital':** City Bridge Trust and UBS awarded WLZ a grant to be used as partial first-loss payment for the investors, if the intervention was unsuccessful against its targets in the first year. This safety net within the model meant that the investors could essentially commit to a model with a number of innovative, and untested, elements
- **Piloting the model:** WLZ received funding through philanthropic grants to deliver a pilot of its intervention for a year. The evidence from the pilot year was critical in engaging the commissioners for the prospective SIB; it showed that the idea was viable and supported with recent evidence of working on the ground in a similar community.
- **Implementation phase:** A condition of the investment from Bridges Fund Management was to leave the SIB model open during the first year so that stakeholders could refine the details of the SIB model as more was learnt about what worked within the model and of the relationship between the intervention and the outcomes.

Thirdly, some (though not all) stakeholders have found the standard SIB template contract a good solution to the challenge of agreeing a contract that suits all parties, as detailed above.

All of the above solutions have the potential to resolve in-part the 'technical' challenges apparent in SIBs. They do not, though, resolve the 'relational' challenges – many of the challenges described in this chapter are linked to working with new partners or in new ways, and in particular to increasing the understanding of other partners. It is likely that some of these relational challenges will diminish over time as stakeholders become more used to implementing SIBs and operating under the new partnership arrangements; though as many of these challenges existed in 2014 the timeframe with which they reduce is likely to be quite protracted.

Finally, none of these solutions overcome the challenge of limited commissioner capacity.

4.8 Conclusion

Overall we conclude that SIBs continue to face some of the same challenges that we noted in our previous reports, notably complexity and high development costs. The reasons why it remains challenging to develop SIBs quickly and easily are, however, becoming clearer. We have therefore been able to present a more nuanced picture than we have previously reported. They come down in large part to the need to manage complex and multiple relationships between the parties both during the design and development of the SIB, and during subsequent contract negotiation and agreement. The challenge of managing this complexity is exacerbated, especially for commissioners, by a lack of capacity in straitened circumstances.

The availability of Development Grants and other sources of support has been only a partial solution to this capacity problem and may in part account for the very high costs of some SIB development to date – since commissioners (who face the largest development burden) have been able to outsource a high proportion (but by no means all) of the detailed development work. There is concern among some stakeholders and investors that more restricted Development Grants will reduce 'headline' costs but will not reduce total costs (because the true costs of development will be hidden within commissioners, or be borne by investors and providers who wish to see a deal done). There is also concern that more SIBs will fail to reach implementation, because lower levels of external development cannot so easily compensate for a lack of internal capacity.

The consequence of this is that we think that we should slightly modify our observation from previous reports that, if interests are properly aligned, SIBs represent a 'win, win, win' for all of the commissioner, provider, and investor; a more nuanced observation, based on more and better evidence, is that they represent a win, win for the investor and provider, and a partial win for the commissioner – who has to bear most of the time and cost of development with limited resources, and also has to be sure that they will be able to make future outcome payments in an era of continuously falling budgets – cashable savings notwithstanding. As one investor whom we surveyed noted: 'I*t's very hard to do this when budgets are so tight and still falling. We all face strong headwinds before we even start."*

5.0 Other SIB Observations

As well as the main advantages, disadvantages and challenges currently associated with SIBs, our research has revealed some other interesting findings. As is the case with the advantages and disadvantages we have described, some of these additional findings are developments of issues that were noted in our last update report, while others have emerged since. They include:

- the challenge of being held to initial business cases;
- SIBs lead to increased performance management;
- the ever-growing diversity of SIBs;
- SIB development continuing to be driven by service providers;
- a trend towards investment decisions based on the capacity and track record of service providers;
- continuing questions about the extent to which current SIBs lead to innovative service delivery; and
- the involvement of smaller providers in SIB delivery.

We provide more detail on each of these observations below.

5.1 The challenge of being held to the initial business case

An advantage of SIBs initially observed through the primary research of the CBO evaluation, and reported in wider literature, was that they stimulated the development of a strong business case to underpin the intervention prior to it being implemented. This included ensuring that the outcome metrics were robust, reliably captured the key outcomes of the project, and reflected the cost savings associated with them – based on assessment of the costs of the 'business as usual' or 'no preventative intervention' scenario. Stakeholders interviewed during the first two years of the CBO evaluation reported that this level of business planning was greater than they would have undertaken if the service was commissioned through a fee for service contract. Service providers and commissioners had found that a side-benefit of this work is that the intervention was built on a solid business case.

"It doesn't half test your business model." (Representative from WtW)

However, as the focus of the evaluation has shifted to interviewing those delivering (rather than designing) SIBs, there is some evidence to show that this business case is perhaps not as robust as first thought. Respondents to the service provider survey reported that the biggest negative effect of SIBs is over-ambitious modelling at the outset, making it very difficult to achieve the stated outcomes (Figure 3.6). Furthermore, through our learning seminar and conversations with advisors we have become aware of examples where assumptions in the SIB business cases have been incorrect, for example in relation to likely referral rates or the size of the population eligible for the service. In both these cases we have heard that this affected the ability of the SIB to meet its expected outcomes. As we reported on earlier, this can be compounded by limited commissioner capacity, which inhibits commissioners' ability to fully engage with the business case, and so the assumptions within it are not always fully tested.

This highlights a particular challenge for SIBs: that they need some levels of certainty in an uncertain world; They require 'robust' business cases in order to model expected outcomes and payments, but then they face difficulties if the assumptions in the cases do not materialise.

However, to date this point is built primarily on anecdotal evidence. We will explore this further during the next year of the evaluation.

5.2 SIBs lead to increased performance management

Stakeholders reported that SIBs can lead to better performance management than fee for service contracts. This is because the alignment of interest between the investor, commissioner and service provider increases the focus on achieving the outcomes to which payments are attached. This in turn improves partnership working and enhances contract management.

This benefit was evident in independent evaluations of current SIBs. It was also apparent in the CBO learning seminar, where there was evidence of the 'investor effect' on performance management; the investors improved performance management by adding an extra layer of scrutiny on how the SIB was progressing and performing. Investors' external viewpoints helped to focus people's minds on a series of different and underpinning issues (not just on the direct achievement of outcomes), ranging from the take-up of services, marketing and outreach through to the general quality of provision to help achieve the intended outcomes.

However, the performance management aspect of the SIB was also identified as one of the areas that could discourage commissioners from further developing a SIB and could add an extra layer of pressure on those delivering the provision. Some commissioners were concerned that the additional contract management, and associated time demands, did not justify the potential benefits from the SIB approach. The extra demands and scrutiny from the investors to ensure success was highlighted by both commissioners and providers as an extra pressure to cope with. Indeed, managing the reporting/data requirements was the main challenge cited by service providers working in a SIB, with over half (11 out of 22) reporting this as a challenge (**Figure 5.1**). Additionally, the proportion of commissioners reporting that SIBs led to better governance/contract management structures than conventional contracts declined from 2014 to 2017: in 2014 almost one in two (four out of nine) commissioners reported this as a benefit of SIBs; in 2017 this reduced to one in six (seven out of 41). Finally, in our MEHP in-depth review we reported that:

"The need for multiple reporting lines has added a layer of administrative burden on providers."

Figure 5.1: Perceived challenges of working in a SIB – service provider

Source: Service provider survey. Base: Service providers involved in a SIB (n=21). More than one response possible. Not shown in chart: seven service providers did not answer the question.

This dual positive and negative of the increased contract management was summarised by one attendee of the learning seminar:

"[The investor scrutiny] does strengthen us, we can't take our eye off the ball. But we struggle with that – there's a constant search for indicators – they want to take away uncertainty so they're trying to collect data so they know what the payments will be – but there is always uncertainty." (Comment made during learning seminar)

The evaluation of the Essex MST SIB also identified both the benefits and challenges of performance management.[53] It found that:

"It is some respondents' perception that the MST service in Essex has tighter programme management and governance arrangements in place as a result of the SIB structure. These arrangements provide robust oversight of the programme delivery with a strong focus on performance."

But also that:

"The information and reporting requirements of the SIB have felt onerous for all partners but particularly for Action for Children, for whom the realities of the resource required exceeded their initial expectations about what it may involve."

This appears as a paradox (that commissioners simultaneously like the outcomes focus that comes with the performance management, but dislike the time demands); however, it is more that some commissioners saw this as a benefit, and others as a benefit that did not outweigh the costs. We will be able to gather a better sense of which of these is the prevailing views in the remainder of the evaluation. It is also worth noting that not all SIBs involve all parties in governance, and nor do they all have active involvement by investors. For the Reconnections SIB, for example, investors are not directly involved in the governance of the SIB and there has been no direct contact between the investor and the commissioner. However, Social Finance as the intermediary have been heavily involved in contract management and governance.

5.3 Diverse nature of SIBs

A key finding from the first round of surveys and our last update report was that a 'one-size-fits-all' approach to SIB development and implementation is not appropriate; the multiplicity of partners that exist within a SIB (investors, commissioners, service providers and intermediaries) means that the combination of wants and needs from those involved varies relatively widely from one SIB to another. In addition, investors and providers choose to structure each contract and its financial and governance arrangements differently, both to suit their own needs and wants, and to meet the requirements of commissioners.

[53] Evaluation of the Essex MultiSystemic Therapy Social Impact Bond: Interim evaluation report, OPM, 6 November 2014. See: http://www.opm.co.uk/wp-content/uploads/2015/10/Interim-report-Essex-MST-SIB-Evaluation.pdf

There seems to be no doubt from our latest surveys and other research that this trend towards diverse manifestations of SIBs has continued and has if anything accelerated. There is a continuing trend towards diversity in:

- the policy and service areas in which SIBs have been successfully implemented and are currently being developed (see Changes in the number of SIBs and the supporting infrastructure for more information);
- the range of interventions that are commissioned and funded using an outcomes-based approach;
- the range of SIB models and structures, defining the way that individual contracts are managed; and
- the different ways in which investment in SIBs is structured, reflecting both investor and provider preferences, including the sharing of financial risk between investors and service providers. For example, in the West London Zone (WLZ) SIB the financial risk is shared between the service provider, investor and foundations, where the service provider benefits financially if they perform well, but will need to repay some of the loan if they significantly underperform against targets.

This increasing diversification is important for a number of reasons, and is in general broadening perspectives on when and how a SIB model might be appropriate. There is for example a noticeable move away from what some stakeholders refer to colloquially as the 'classic' 'traditional' or 'trademark' SIB model. Under such a model, the SIB is in a policy area where all or a high proportion of the outcome payments can be funded by future cashable savings[54]; the intervention has a very strong evidence base or is a recognised Evidence-Based Programme; and the SIB is structured to include either an investor-owned special purpose vehicle (SPV) or a prime contractor[55]/intermediary that manages and/or contracts with service providers. There are multiple variants on the latter models in practice, but their defining characteristic is a strong element of performance and/or contract management built into the structure, and often the presence of a third party intermediary and an expectation that the invested capital will deliver the cashable savings to pay for the intervention.

As one of the diversifications away from the 'classic' model, there has been a move away from what might be termed heavily intermediated or managed SIBs, and halfway towards variants on the 'Direct' SIB model, where the commissioner contracts directly with the provider. In this model the investor funds and contracts with the provider (which may also act as a prime agent with other contractors and/or provide a performance management role) without a significant performance or contract management superstructure, since the investor can develop (or already has) a strong relationship with the provider. This model can also have numerous variants, but they generally have shorter and simpler communication lines between the parties to the contract.

A further development is a model where the investor directly manages the providers, without an independent intermediary and with a more straightforward governance structure. Again, this model (in various forms) is likely to have simpler lines of communication and control. The WLZ SIB is an example of this model.

[54] Cashability is the extent to which a change in an outcome or output (e.g. fewer children in care) will result in a reduction in spending, such that the expenditure released from that change can be reallocated elsewhere
[55] A prime contractor is a provider who is directly contracted to deliver a service and acts as the single point of contact for the commissioner. Prime contractors may pass on work to subcontractors

These developments appear to reflect a view, especially among leading investors, that intermediation or independent management of SIB delivery is not always needed, and may add unnecessarily to complexity and costs, and where it is needed can be done more simply and cheaply by either a lead or prime provider, or the investor. Leading investors appear to recognise that 'classic' intermediated SIBs are sometimes appropriate, but are concerned that they are sometimes being promoted when they are not needed, especially by those who have a commercial interest in the 'classic' intermediated SIB model.

Both the investor survey and specific SIBs that we have studied also show increasing diversity in the way finance is structured in SIBs and capital applied by investors. Again, the 'classic' SIB model assumes that financial risk is borne fully by the investor, who provides the capital needed to initiate the service and run the contract until outcome payments flow, and pays the provider(s) at intervals on a fee for service basis (or on a cash-flow-as-needed basis). The provider is thus in a similar position to when grant-funded, and not directly at risk of losing money if the intervention is not as successful as expected (although they do of course face significant reputational risk, and could have their contract terminated if they fail to perform).

However this 'classic' model is not universal, and a proportion of SIBs are structured so that providers share some financial risk or are directly bearing financial risk as they would under a payment by results contract. The differences between individual SIB structures are numerous, but the following main types of SIB financing can be identified from our research:

- A conventional SIB model, where the investor bears the outcome risk and pays the provider on a fee-for service basis
- A variant on the conventional model where the investor bears the outcome risk and pays the provider for specific outputs – e.g. rates of engagement or completion of the intervention. There is thus some financial risk to the provider if they cannot achieve the outputs to which payment is linked
- Models where the financial risk is shared on an agreed basis between investor and provider
- A PbR-style model, where the social investor provides working capital to the provider as a repayable loan, and the provider is therefore at risk if outcomes are not achieved.

These developments are being driven by a combination of:

- Investor preference and deliberate positioning:
  - ► One leading investor appears largely to favour the conventional models, but has structured some SIBs so that the provider shares risk.
  - ► Another is explicitly wedded to the PbR-style model, and has it as part of its mission to encourage providers to build the capacity needed to take on loan finance (with the downside that they cannot invest in SIBs where the provider is unwilling or unable to bear such risk).
  - ► A third is explicitly flexible, and will tailor structures to the needs and wishes of providers
- Provider preference and risk appetite. Some providers positively want to share in the 'upside' that will result from a successful intervention that delivers high social impact, and therefore will want to take on more or all of the financial risk. This will drive them towards a PbR-style model, or one where risk is shared (and may therefore influence their choice of investor).

These developments suggest that it is perhaps unhelpful to separate out SIBs so clearly from PbR, and instead refer to them collectively as outcome based commissioning, with investment capital playing one or more of a number of roles as needed, to address the financial barriers that could otherwise prevent the parties from pursuing an outcomes based contract.

What is not clear from our research, is whether and to what extent these developments and investor positionings are necessarily clear to, and well understood by, commissioners and providers. The finding from our surveys that investors are not, in general, well understood suggests that there is likely to be much misunderstanding about both the way deals can be structured, and the differences between the positioning of specific investors. This reinforces the need for better, easily understood information to be made available about investors.

Recommendation: Provide clear and easy to understand information on the different ways investors can apply capital to SIBs, and the positioning and preferred approaches of specific leading investors

As the range of SIBs grows, there also appears to be growing recognition that:

- SIBs do not need to generate hard financial benefits to the main or other co-commissioners, provided that the commissioner is able to fund outcome payments and is satisfied by the benefits of the intervention in improving social impact. In these cases, the benefits of the SIB lie in the increased focus on outcomes and the financing of PbR, in order to transfer away:
  - ► the risk to the commissioner associated with fee-for-service that if outcomes are not achieved budget is wasted; and
  - ► the risk to the provider of straightforward PbR.

  For example, the WLZ SIB is not primarily driven by direct savings, and uses a blend of social and philanthropic co-commissioning pots as well as finance to overcome some of the challenges of developing a SIB where the financial benefits to the local commissioner are both less clear cut and unlikely to accrue quickly;
- The capacity and ability of the provider to deliver interventions effectively, is at least as, if not more, important than the evidence base for the intervention, in clinching the case for a SIB, especially as regards the appetite of social investors for particular deals. For example Bridges Fund Management were happy to invest in WLZ because of the confidence they had in the management team. Furthermore, the evidence base for many interventions is not always relevant to the circumstances in which it will be deployed – especially in different geographies or applied to a cohort with different characteristics. As one leading investor commented:

  "Just because an intervention works in Australia doesn't mean it will work in Stockport."
- Alternative and simpler models of SIB governance and structure may be appropriate, with intermediated or managed SIBs being used more sparingly and only where there are compelling reasons for using a model that generally has greater complexity, requires increased governance, and tends to be more expensive. The HCT Travel Training SIB is a good example of a simpler model, where the contract is directly between the commissioner and the provider (in this case HCT). The use of such a simpler model can also facilitate replication elsewhere, provided that successor commissioners are prepared to accept the pre-defined model presented to them by the provider (or possibly franchise holder).

As we have made apparent throughout this report, the type of SIB model adopted can have ramifications on a range of things, such as the type of investors and VCSEs that choose to engage with the SIB.

5.4 Some SIB development is being driven by service providers

In the CBO Fund a substantial number of applications were driven by service providers (44 out of 115 EOIs were provider led) and/or intermediaries (13 out of 115 EOIs were intermediary-led).

Much as the programme actively encouraged VCSEs to present proposals should they wish to, at the EoI stage, the results of the commissioner survey tend to suggest that the extent to which this might have been happening was because some commissioners lacked the capacity and resources to pursue SIB development. Furthermore, one of the policy stakeholders we interviewed took the view that VCSEs (and especially larger VCSEs) are naturally entrepreneurial and likely to develop propositions aimed at commissioners in the normal course of events. This was the case, for example, in the WLZ SIB, which was provider-led:

"The local authority commissioner reported that WLZ were in a good position in many ways to work up an innovative idea, and be entrepreneurial in developing a concept, whereas they felt commissioners often had other priorities that they need to focus on." (WLZ In-Depth Review)

The VCSEs' prominence in SIB development is thus a natural extension of this entrepreneurship, but in circumstances where relatively few commissioners themselves have the resources and bandwidth to engage in and carry through a SIB process. It could therefore be argued that providers are simply taking the initiative because they are willing and able to do so while some commissioners are not. Indeed, one service provider in the learning seminar who had led the development of multiple SIBs said they were happy for a commissioner to lead, but none were willing to do so.

It is also the case that, while all parties to a SIB can find them beneficial, ultimately the financial obligation to pay for outcomes falls on the commissioner, and there is thus more potential downside to them in a SIB than for a provider, who will tend to benefit from funding for an intervention that might not otherwise be made available. Service providers are possibly therefore more motivated to develop a SIB than a commissioner. We allude to this before in our interpretation as to why service providers were generally more interested in getting involved in future SIBs in our stakeholder surveys than commissioners.

What seems reasonably clear is that provider-led SIBs are not 'crowding out' commissioner-led developments. In all the in-depth reviews that we have conducted of SIBs which have been provider- or intermediary-led (including the most recent, led respectively by WLZ and HCT) the commissioners have all reported that they would not have initiated or commissioned the SIB without the provider taking the lead.

As we argued in our previous update report, a provider-driven approach continues to have both strengths and weaknesses. On the plus side a provider-led SIB can change the dynamics of the relationship between commissioners and service providers, and energise commissioners to get involved in innovative contracting and financing arrangements that they might otherwise not consider. As highlighted above, this was true of WtW, WLZ and to an extent of HCT, although the HCT intervention is not especially original or unusual, and one of the commissioners (Norfolk) already had travel training in place for a different cohort. As already mentioned a provider-led approach can also facilitate replication, if later commissioners can take advantage of development work already done previously with 'early adopters' – again a feature of the HCT SIB

However, it remains a significant risk that substantial amounts of time and funding can be spent by service providers, intermediaries and grant funders on developing SIBs that commissioners are ultimately unwilling to commission, despite the efforts made by funders to ensure earlier and better engagement of commissioners in the development process. This includes SIBs that providers and intermediaries are aiming to replicate, since not all successor commissioners that are engaged will ultimately enter into a contract.

In addition, the prominence of providers in developing SIBs continues to lead to challenges at procurement stage. Much of this arises because of the tension between providers who have invested, often significantly, in SIB development and commissioners aiming to ensure proper competition and value for money. Some providers who have invested time and money in developing a contract have a wish to see a contract awarded to them without open competition, and the relatively new 'light touch' procurement regime offers entirely legal and proper routes to achieving this in the right circumstances[56]. Commissioners have proved that such routes also enable them to comply fully with their own standing orders, to meet their fiduciary duty to obtain good value for money, and respond to the need for legal compliance with contract law including the implications of state aid as has been required of all contracts supported through CBO funding.

Both HCT commissioners showed how the light touch regime can be used successfully. Conversely, we have found local authority and other commissioners to be cautious about using such procedures (notably the single stage Prior Information Notice[57] and even more so the Voluntary Ex Ante Transparency (VEAT) Notice[58]) when they believe that there is a prospect of genuine competition, and potentially achieving better value from other providers and/or investors. Tensions can arise if any or all of the following situations:

- Providers who have led SIB development are subjected to competitive processes after a significant amount of co-design work has been done, and when they are the only realistic tenderer, thus incurring unnecessary expense and delaying SIB implementation
- Commissioners are put under pressure to use a light touch process when they are not convinced it would be best to do so
- Commissioners use a light touch procedure (especially a VEAT Notice) and are subsequently challenged by another potential bidder, which again leads to unintended delay and unnecessary expense – in this instance for the commissioner.

All of the SIBs we have currently examined as part of the in-depth reviews have been provider-/advisor-led and we have seen a number of examples where the above tensions have arisen. For example:

- In the Reconnections SIB the commissioner undertook an open procurement process after the intermediary and service provider had been involved in the development of the SIB from the very start. There were differing views between stakeholders around the appropriateness of this decision.
- The fact that the WLZ SIB was developed by WLZ presented some challenges for the procurement process the commissioner had to follow.

Ultimately decisions about the appropriate procurement route lie with the commissioner. However, we think there needs to be clearer guidance to providers about the circumstances in which it would be reasonable to expect a commissioner to use the light touch procedure to enable a contract to be let with no or minimal competition, and when they should reasonably expect them to refuse to do so.

[56] See: GO Lab, 2019. *Awarding the Public Contract in a Social Impact Bond*: https://golab.bsg.ox.ac.uk/guidance/technical-guides/awarding-public-contract-social-impact-bond/

[57] A Prior Information Notice (PIN) is a method for providing the market place with early notification of intent to award a contract/framework and can lead to early supplier discussions which may help inform the development of the commissioners' specification.

[58] A VEAT provides retrospective notice through the OJEU (Official Journal of the European Union), which publishes information on public sector contracts) process of a decision to award a contract to a provider without competition. A VEAT is the reverse of a PIN (see above) in that it does not provide for a competition.

Recommendation: Provide clearer guidance to providers on when and when not to expect commissioners to use the light-touch procurement regime

5.5 How innovative are SIB-funded interventions?

As we observed in our last update report, innovation in service delivery is often cited as one of the key benefits of SIBs, encouraged by the outcomes-based payment framework and relative freedom providers are given to devise their own solutions.

Some independent evaluations have found this benefit to exist in practice. For example, the SIB Health Trailblazers report argued that the emphasis on innovation within SIBs was welcomed by service providers[59]. They felt that more traditional funding streams, such as grants or block contracts from commissioners, *"encourage the delivery of programmes focused on short-term, narrow, process measures of successful service delivery".*

However we found some evidence that interventions commissioned via SIBs are not always as innovative as might be perceived or expected. The important distinction is between the commissioning, contracting and financing arrangements that are themselves clearly innovative, and the contracted interventions that are not always very different to arrangements already in place. This is most apparent in the WLZ SIB, whose Collective Impact Bond model, level of co-commissioner involvement and blending of philanthropic and social finance appears to be genuinely ground-breaking in the UK (though it builds on and partly replicates similar initiatives in the US). However the interventions being deployed in WLZ are not especially different to similar interventions (based on a link worker approach) being used elsewhere and funded through conventional contracts. Indeed when the commissioners chose to compete the contract they received credible bids from a number of other providers, which suggests that the intervention was easily replicable. Similarly, while the HCT SIB has enabled travel training to be commissioned at much greater scale than might otherwise have been possible, travel training itself has been recommended best practice from the Department for Transport for a number of years, and was already being conventionally funded (for a different cohort) by one of the SIB commissioners.

Across all the CBO-funded SIBs that we have so far reviewed in depth, it would we believe be difficult to argue that the interventions that have been procured and funded were themselves innovative, since they were all based on variants on case worker/mentor/key worker approaches, and similar to other programmes which were not SIB funded. The innovation in SIBs is far more to do with the way that finance is being used to help commissioners afford to take earlier action on complex social needs.

5.6 Involving smaller VCSEs in SIBs

One advantage often claimed for SIBs is that the up-front funding enables the involvement of relatively small VCSEs as service providers, because such providers are shielded from the financial risk involved in conventional PbR. We continue to find mixed evidence for this. Some of the SIBs we have reviewed have enabled smaller providers to become involved, especially as sub-contractors to larger 'prime' providers and intermediaries. This was the case, for example, in the MHEP SIB. Against that, there has as noted above

[59] Tan et l al, 2015. An evaluation of Social Impact Bonds in Health and Social Care. Policy Innovation Research Unit (PIRU), London. See: http://www.piru.ac.uk/assets/files/Trailblazer%20SIBs%20interim%20report%20March%202015,%20for%20publication%20on%20PIRU%20siteapril%20amendedpdf11may.pdf

been a trend towards investors working repeatedly with trusted organisations with strong and credible management teams; and towards simpler, direct SIB models that will tend to be with a single, established provider. Both these trends are likely to work against smaller providers. The HCT SIB combines both these factors, since HCT was both a large and well-established social enterprise in the transport sector, and already had an established relationship with its lead investor, Bridges Fund Management.

Further to this, in our recent stakeholder surveys, few stakeholders reported that SIBs were enabling service providers to bid for contracts they would not have been able to do otherwise, due to financial restraints. Out of 13 SIB benefits reported by service providers, this ranked third from bottom, with only four out of 21 service providers selecting this as a benefit (Figure 3.4). In the commissioner survey this benefit was reported the least, with only two out of 41 commissioners reporting it (Figure 3.5).

Another important factor is that SIBs continue in many cases to be developed by providers. While some of these may be relatively small, the successful development and implementation of a SIB inevitably requires a degree of capability and capacity that most smaller VCSEs do not have. They will therefore be able to get involved only in a relatively small number of contracts where both the impetus for development has come from a commissioner, and/or the structure of the SIB or delivery model intentionally enables multiple involvement by smaller providers working with a prime provider interested in collective impact.

6.0 How the SIB Landscape has changed since 2014, and how the CBO Fund has Influenced This

As a part of the CBO Fund evaluation, the evaluation team is examining how the broader SIB landscape changes over the duration of the Fund, and the extent to which these changes have been influenced by the Fund itself. We wrote a baseline assessment of the SIB landscape in mid-2014 when the CBO Fund was launched - SIBs: The State of Play[60]. In this section we review the extent to which the landscape has changed from this position since the report was published, and how the CBO Fund has shaped these changes. The section predominantly draws on comparisons between our 2014 and 2017 waves of our stakeholder surveys and consultations with stakeholders, but also references the wider evidence gathered as part of the evaluation. The section is divided into the following sub-sections:

- The SIB landscape in 2014
- How the landscape has changed since 2014
- Extent to which CBO Fund has influenced these changes

6.1 The SIB landscape in 2014

Figure 6.1 includes the infographic we produced in 2014 to summarise the SIB landscape at that time. Key points to note are as follows:

- There were 16 live SIBs in the UK. Most of these (10) were commissioned by the Department of Work and Pensions (DWP) though its Innovation Fund. There were a handful of local SIBs, mostly focused on supporting children in or on the edge of local authority of care (in Essex, Manchester and Birmingham); one supporting homelessness (London Rough Sleepers Bond); one reducing recidivism (Peterborough SIB) and a spot-purchase SIB supporting adoption (It's All About Me (IAAM) Adoption Bond). All bar one of these (the Adoption Bond) were developed by commissioners.
- The early evidence was suggesting they were bringing a number of benefits, and were seen as 'win, win, win' (win for the investor, win for the commissioner and win for the service provider). Key benefits included:
  - ► more innovative and flexible service delivery;
  - ► better contract management, creating more efficient delivery;
  - ► alignment of interests between commissioners, service providers and investors;
  - ► ability to bring in additional, external investment;
  - ► potential savings to current budgets, both cashable and non-cashable;
  - ► better alignment of financial and social returns;
  - ► enabling smaller service providers to participate in PbR contracts; and
  - ► embedding more outcomes-focused culture.
- SIBs were also facing a number of challenges. Some of these reflected the wider challenge compared to conventional contracts of understanding and involving the third 'new' group to the relationship – the

[60] See: https://www.tnlcommunityfund.org.uk/media/research-documents/social-investment/SIBs_The-State-of-Play_Summary-Report.pdf?mtime=20190215124549

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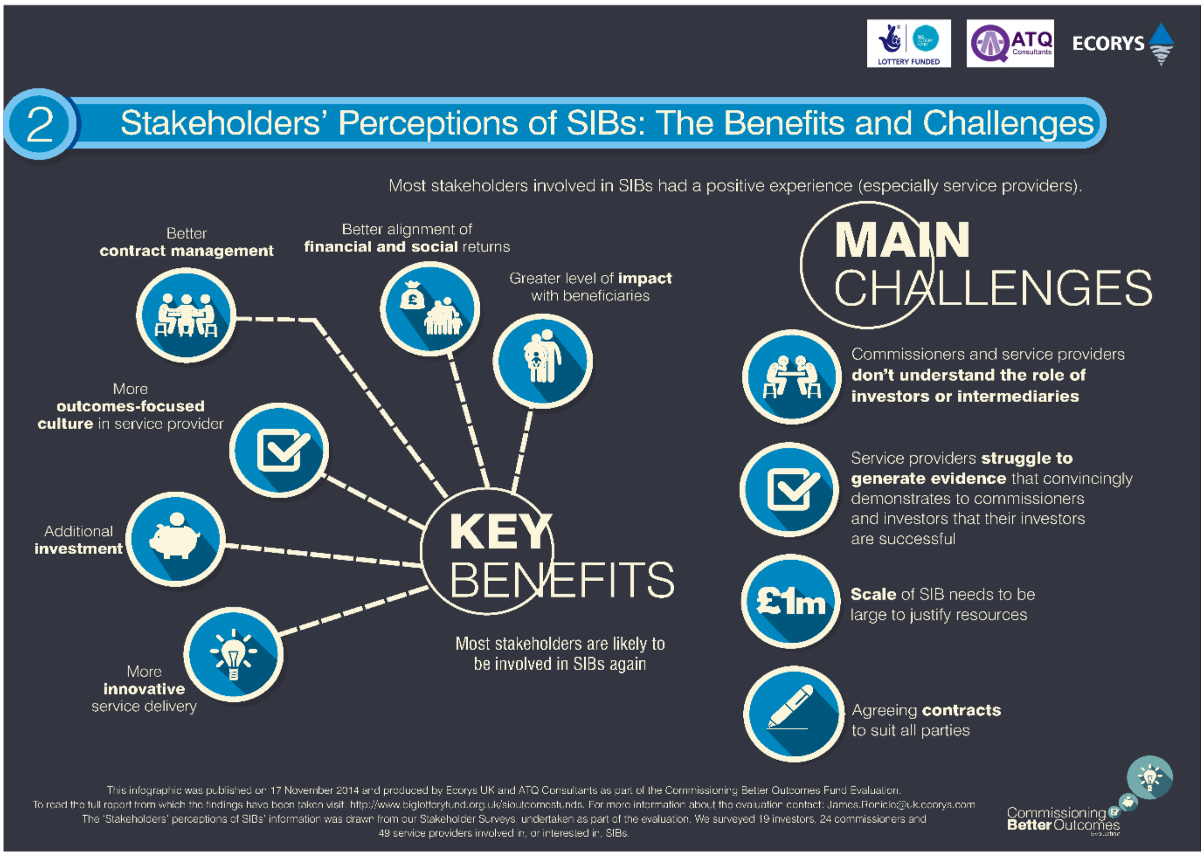
investor. Their development had been slow and complex, particularly local SIBs outside of central government. Challenges included:

- ► Achieving the right balance of risk;
- ► complexity of SIBs and consequent time and cost of development;
- ► generating evidence and measuring impact;
- ► developing the business and financial case for the SIB;
- ► agreeing contracts to suit all parties;
- ► managing and measuring progress in achieving outcomes;
- ► policy uncertainty;
- ► developing the capabilities to work within a SIB model; and
- ► financial risk.

- Independent evidence on the effectiveness of SIBs was relatively limited.

Perceptions of SIBs were generally positive. The majority of investors, commissioners and service providers had a broadly positive experience of being involved, and there was an appetite for more members of each group to get involved in further SIBs

Figure 6.1: SIB landscape in 2014



6.2 How the landscape has changed since 2014

The general view amongst stakeholders is that since 2014 the SIB landscape has generally moved towards the end of the SIB 'Hype Cycle'[61] (**Figure 6.2**). Stakeholders generally report that the 'Peak of inflated expectations' was around 2015/16, when SIBs were seen as having large amounts of potential, with a commitment to scale SIBs in the 2015 Conservative manifesto, leading to the launch of the £80m Life Chances Fund. 2016 was then the 'Trough of Disillusionment' as people became frustrated that SIBs were not setting up and taking off as quickly as people hoped, and they were criticised for receiving disproportionate amounts of attention, including by the House of Lords[62].

Some stakeholders described 2017 as the 'Slope of Enlightenment' as people recognised that they were not a panacea, and were beginning to develop a better understanding as to when they are most appropriate, and what is required to develop one successfully.

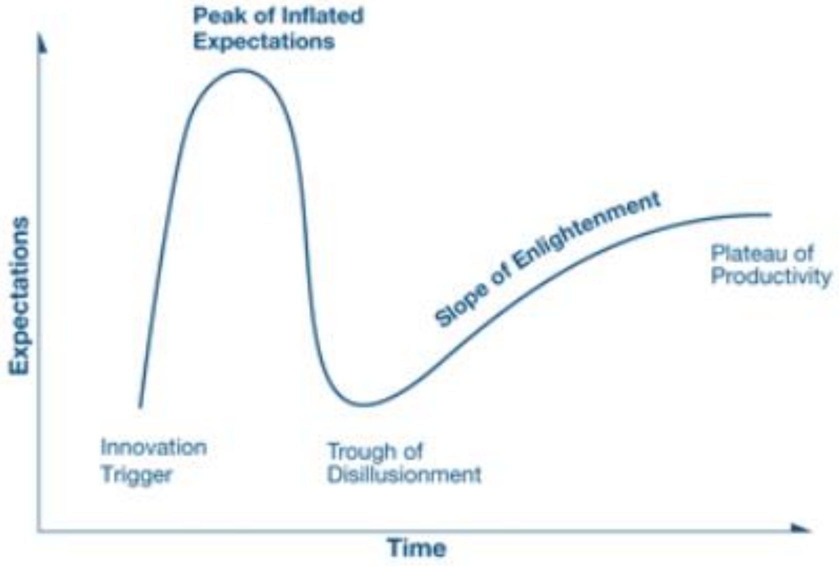
"There was quite a hefty bit of scepticism because of the challenges…that enthusiasm waned and there were a lot of discussions about SIBs having bad reputations and whether we should be rebranding them…but over the last year that's shifted again slightly as more CBO SIBs have come to market." (Stakeholder, comment made during stakeholder consultations)

"There is more of a realistic understanding of what they're doing and how they work." (Stakeholder, comment made during stakeholder consultations)

Below we provide more detail on the changes, including changes related to the:

- number of SIBs and the supporting infrastructure;
- SIB characteristics;
- awareness and understanding of SIBs; and
- benefits and challenges.

Figure 6.2: Hype cycle



[61] Gartner hype Cycles are intended to describe the maturity and adoption of technologies and applications. For more information see: https://www.gartner.com/technology/research/methodologies/hype-cycle.jsp

[62] See: See: https://publications.parliament.uk/pa/ld201617/ldselect/ldchar/133/133.pdf

6.2.1 Changes in the number of SIBs and the supporting infrastructure

6.2.1.1 *Changes in number of SIBs*

Between 2014 and 2017 the number of SIBs more than doubled, from 16 in 2014 to around 40 at the end of 2017, and has increased further to around 70 today. Some of the SIBs launched over this period were in the same policy areas as the first set of SIBs in 2014, such as youth employment (with the launch of the Youth Engagement Fund, funding four SIBs), homelessness (with the launch of the Fair Chance Fund, funding seven SIBs), and support for children in/on the edge of care (with the launch of the North Somerset Turning the Tide SIB). However, SIBs have also expanded into new policy areas, particularly in the health sector, where there are now SIBs focusing on, amongst other things:

- social prescribing (Ways to Wellness);
- isolation amongst older people (Reconnections);
- supporting people with mental health difficulties into work (MHEP); and
- supporting children with learning disabilities to travel independently (HCT).

SIBs are also moving into more complex areas that, in 2014, we believe would have been deemed unsuitable for a SIB. The West London Zone SIB (which is supporting delivery of early interventions to 700 disadvantaged children and young people), for example, is a very early intervention SIB with a limited evidence base, no hard outcomes and no immediate cashable savings – the antithesis of the 'classic' SIB described earlier. These developments are mostly as a result of a greater understanding and ability to build SIBs in more complex areas, and a greater appetite for risk amongst investors.

There are, however, some notable exceptions where SIBs have not replicated. There are no more SIBs focusing on reducing recidivism (the focus of the first SIB in Peterborough Prison) or adoption (the focus of the IAA Adoption Bond); development work was undertaken in some areas to test the feasibility of launching SIBs focused on these policy areas, but no SIBs were launched. This is partly attributed to policy and funding changes in these areas that make PbR and SIBs more difficult – in recidivism this is due to the Transforming Rehabilitation programme and in adoption the Government Outcomes Lab (GO Lab) hypothesised that the introduction of Regional Adoption Agencies had affected the ability to launch adoption SIBs.The number of SIBs is also expected to grow, at least in the next 1-2 years. The LCF is providing £80m in top-up funds for locally commissioned SIBs and is expected to fund between 40 and 60 SIBs. SIBs commissioned by Central Government are also being developed.

The number of SIBs currently live is not, however, as large as stakeholders anticipated in 2014. The number is lower because SIBs have taken longer to develop, as we reported on earlier.

6.2.1.2 *Changes to the supporting infrastructure*

Two major trends can be observed in the market for intermediaries and other advisors on SIB development and implementation between 2014 and 2017:

- The market has in general matured, with more sources of advice and support available and external support being used more sparingly and in a more targeted way. Commissioners and providers continue to use and value external paid support, but are also using other sources of advice and guidance (such as GO Lab and the CBO/LCF team) and are thus using paid advisors to provide more specialised and focused advice.
- Investors are becoming more proactive in themselves supporting and advising those developing SIBs, and especially providers. This appears to reflect both investor dissatisfaction with the quality of development work that has been undertaken on some SIBs prior to their involvement, and a wish to dispel some of the misunderstanding that still persists around their role and motivation, as already discussed above.

6.2.2 Changes in SIB characteristics

As well as the overall increase and diversity of SIBs, there have been some interesting changes in the characteristics of the SIBs themselves. These have been reported in detail in chapter 5, but to summarise the main changes have been:

- the rise of provider-led SIBs;
- the increased focus by investors on provider track record over the evidence base for the intervention; and
- the move away from SIBs involving heavy intermediation, and divergence in the way SIBs are financed by social investors.

6.2.3 Changes in awareness and understanding of SIBs

It is perhaps no surprise that the increase in the number of SIBs has coincided with a broader and greater awareness. It is difficult to robustly quantify the extent to which SIB awareness has increased, but stakeholders interviewed in 2017 reported that most local commissioners and service providers they spoke to had at least heard of SIBs, which was not the case in 2014.

Stakeholders interviewed as part of the stakeholder consultations were of the view that the understanding around when best to use a SIB, and in what policy areas, had increased between 2014 and 2017. They described how in 2014 there was a general interest in SIBs, but a lack of understanding of how best to apply them and a focus on generating cashable savings. They reported that up to 2017 the understanding had become more nuanced:

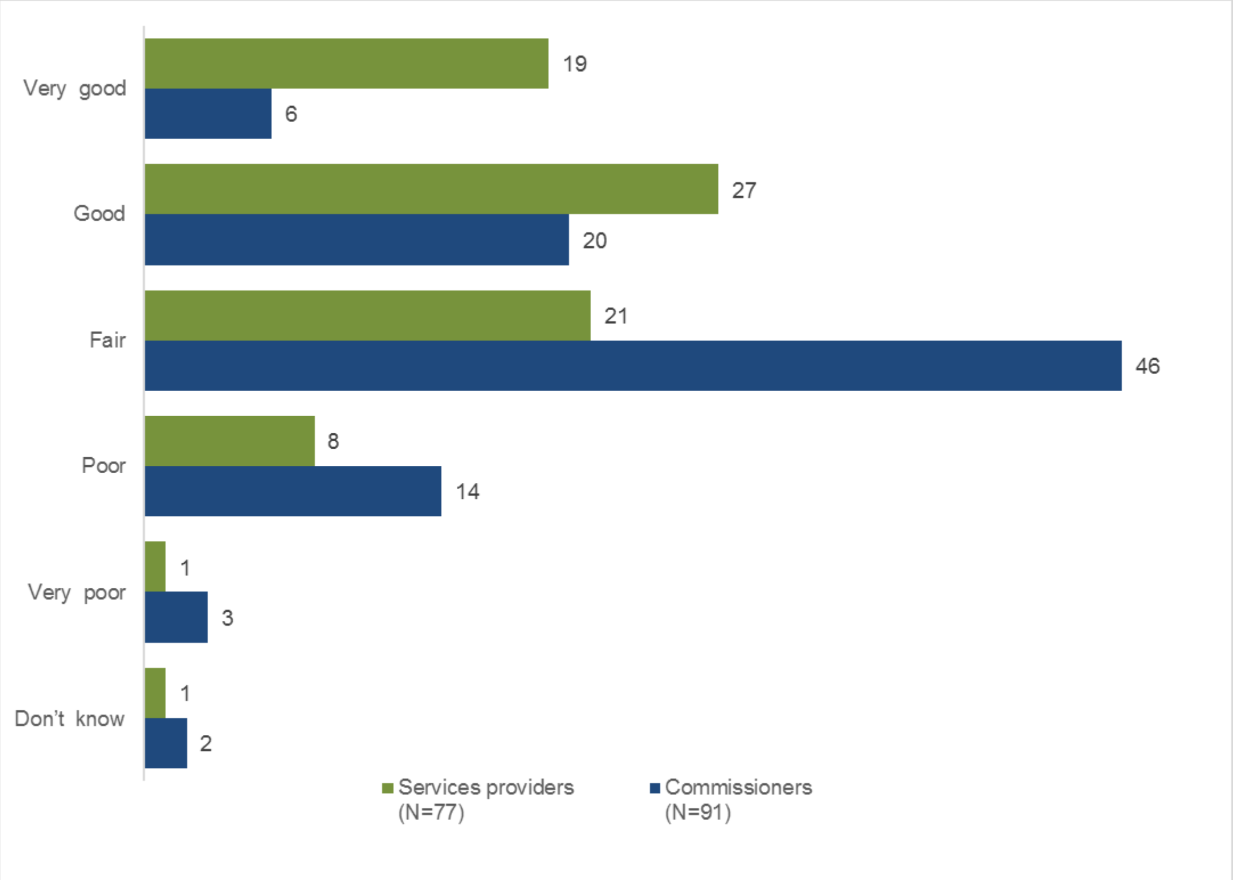
"In 2014 there was an open question as to where SIBs might be best used – now there is an understanding about where they could have the most impact." (Stakeholder, comment made during stakeholder consultations)

However, stakeholders also recognised that SIBs were still niche and this more nuanced understanding was only evident amongst a small number of individuals within a small number of organisations. Indeed, only a quarter of commissioners in the 2017 commissioner survey (26 out of 91) reported that their organisation's understanding of SIBs was very good or good, with half (46) describing it as fair (**Figure 6.3**); unsurprisingly understanding was lowest amongst those who were not yet involved in SIBs. Moreover, the average level of understanding of SIBs amongst commissioners responding to the survey *declined* between the 2014 and 2017 survey waves (**Figure 6.4**); in 2014 almost half of commissioners (11 out of 24) reported having a good or very good understanding of SIBs; in 2017 this reduced to just over a quarter (26 out of 91). This survey is targeted at commissioners involved in or interested in SIBs rather than all commissioners; therefore this suggests that whilst the number of commissioners involved in or interested in SIBs has increased, they do not self-report as having as good a level of understanding of SIBs as the first set of commissioners involved in 2014.

"There's a gap in knowledge, but people have heard of them." (Stakeholder, comment made during stakeholder consultations)

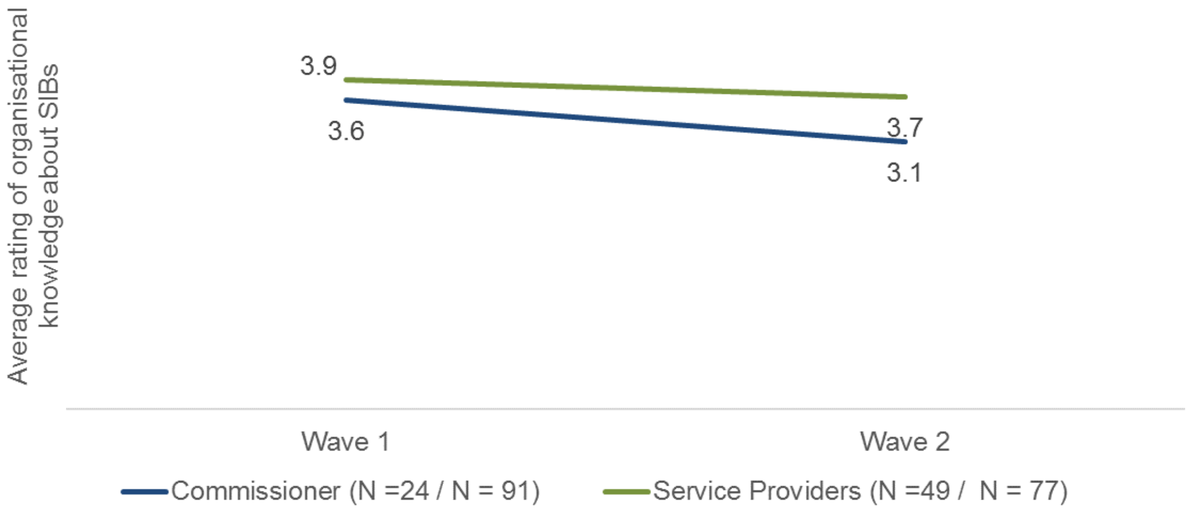
"The knowledge isn't being shared within authorities. There's this SIB thing within commissioners but they don't appear to be sharing the learning to other parts of the authority." (Stakeholder, comment made during stakeholder consultations)

Figure 6.3: Level of organisational knowledge about SIBs



Source: Commissioner and provider survey wave 2. Base: All respondents (Commissioners N = 91; Service provider N = 77). Not in chart: Three respondents (two commissioners and one service provider) reported 'do not know'.

Figure 6.4: Change in organisational knowledge about SIBs from 2014 to 2017



Source: Commissioner and service provider survey wave 1 and wave 2. Base = all respondents (as specified). Average rating of 'understanding' based on 5 point Likert rating based on self-reported organisational knowledge about SIBs (1= Very poor, 5 = Very good).Not included in rating respondents who answered do not know, none above or did not answer the question.

6.2.4 Changes in SIB benefits and challenges

Perhaps surprisingly a lot of the benefits and challenges identified in 2014 still remain today, with some notable exceptions, as we detail below.

6.2.4.1 *Changes in benefits*

As we reported earlier some of the key benefits reported in 2014 continue to materialise in SIBs examined since then. In particular, the evidence base has increased around their ability to bring in upfront investment; align financial and social returns for investors; and embed an outcomes-focused culture in service providers.

However, as the evidence base of SIBs develops it has called into question some of the other benefits that were seemingly evident in 2014, such as:

- **More innovative service delivery**: As we report on in chapter 5, we are finding that SIBs are not always as innovative as they might be perceived or expected. Interestingly the proportion of service providers stating that SIBs enable more innovation declined between the 2014 and 2017 survey waves.
- **Alignment of interests between commissioners, service providers and investors:** Whilst this is generally seen as positive, our CBO learning seminar identified that this seemingly symbiotic relationship can start to unravel when the SIB is not delivering to plan. However, we need to do more research into this area to understand it further.
- **Enabling smaller service providers to participate in PbR contracts:** As we report again chapter 5, there is mixed evidence around this.

6.2.4.2 *Changes in challenges*

As well as many of the benefits from 2014 still existing, so too are the challenges, as we report in chapter 4. They still take a lot of time and cost to develop; it is still difficult to agree contracts to suit all parties, including achieving the right balance of risk; it is still difficult to develop the business and financial case for SIBs; and they are still affected by policy uncertainty.

One earlier challenge in the development of SIBs which has changed, is the expectation/requirement that SIBs must have a certain scale (as measured by total size of cohort and/or annual and total contract value or total value of investment) in order to be viable. In the first wave of the investor survey investors reported that the minimum they would be willing to lend would be £1m, due to the required organisation, transaction costs and on-going contract performance overheads. However, we have since seen a number of SIBs where the amount of social investment has been lower than this (for example in Be the Change it was £150k)

The relatively small scale of many SIBs does not appear to have substantially inhibited their viability or capacity to attract investment. Investors were asked why this appeared to be less of an issue during the investor breakfast meeting. In part it was due to the fact that SIB funds were launched and these were the only opportunities available, and therefore it was better to invest in these small-scale SIBs than none at all. But it is also because small scale is now more possible. In some deals a lot of the work had already been done when developing previous projects, so the transaction costs were lower, justifying a smaller investment. However, whilst smaller scale SIBs were possible through replication, investors were still of the view that scale was a barrier to mainstreaming SIBs, as small scale SIBs were only possible in restricted circumstances (namely when the SIB was being replicated and stakeholders were comfortable with making only minimal changes to the model).

6.3 Extent to which CBO Fund has influenced these changes

One of the aims of the CBO Fund was to influence the wider SIB landscape. The funding was provided to build the evidence base around SIBs – to test their feasibility in new policy areas, launch a set of innovative SIBs, and evaluate their effectiveness in order to shape others' understanding and awareness of their role. In this section we review the extent to which this aim has been achieved in the first four years of the programme, and the extent to which the changes since the CBO Fund was launched, described above, can be attributed to the CBO Fund itself. This section draws on the perceptions of stakeholders interviewed as part of the stakeholder consultations, CBO applicants surveyed during the stakeholder surveys and interviewed during the in-depth reviews, consultations with non-operational SIB areas, and our own perceptions of working closely with the CBO Fund.

A large number of the main changes to the SIB landscape since 2014 described above can, to a greater or lesser degree, be attributed to the CBO Fund. Overall, the CBO Fund has influenced the SIB landscape in three main ways. In summary, the CBO Fund has:

- increased the number and diversity of SIBs;
- raised stakeholders' awareness and understanding of SIBs; and
- increased the role of VCSEs in SIB development.

We provide further detail on these three areas below.

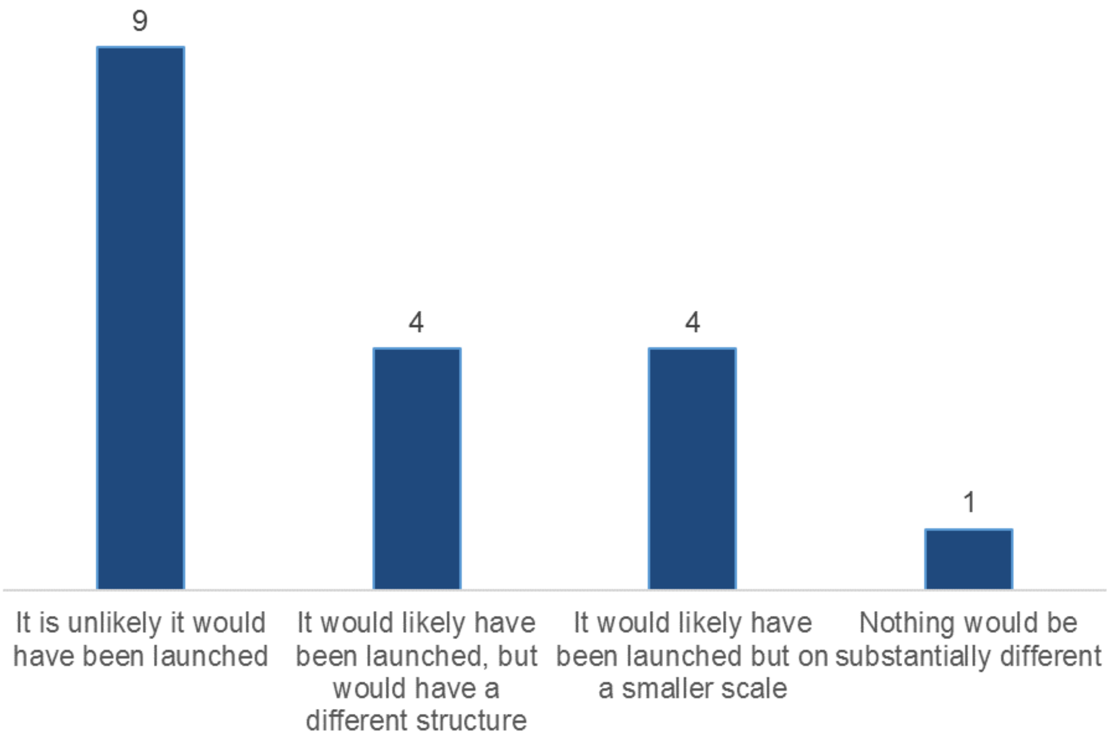
6.3.1 Increased number and diversity of SIBs

Prior to CBO launching there were three locally-commissioned SIBs. During this same time period no local SIBs were commissioned outside of the CBO programme or without financial and other support from Central Government (for example through the Homelessness Prevention Trailblazer[63]).

We do need be wary of substitution effects - i.e. it is possible some local SIBs would have been commissioned if the CBO Fund did not exist, and they simply took the additional advantage of CBO funding as it was available. However, there is good evidence from the survey of commissioners that these SIBs would either not have launched, or would not be of the same scale/structure, without the CBO Fund. Of the 18 commissioners surveyed who were involved in CBO, half (9) thought it was unlikely the SIB would have launched without CBO funding (**Figure 6.5**). The majority of the others thought CBO had increased the scale of the SIB (4) or changed its structure (4). Only one thought nothing about the SIB would be substantially different if CBO funding was not available. Service providers were even more adamant about the added value of CBO; six out of seven respondents said it is unlikely the SIB would have been launched without the CBO funding.

Figure 6.5: Commissioners' perceptions of the added value of CBO funding

Survey question: if CBO funding was not available, what would have happened to the SIB you are involved in?



Source: Commissioner survey. Question only available to those involved in the CBO Fund. N = 18.

[63] See: https://www.gov.uk/government/news/40-million-homelessness-prevention-programme-announced

Therefore, in its first three years CBO had led to a four-fold increase in the number of local SIBs in England. Since 19 CBO-funded projects had been launched by the end of 2018 it has already resulted in over a six-fold increase. It has therefore achieved one of its main aims of increasing the number of local SIBs in England.

The CBO fund also increased the range and diversity of SIBs in existence. Prior to the fund launch SIBs primarily existed in the youth employment/engagement, health and edge of care policy areas. SIBs developed or funded through CBO have been in new policy areas, such as social prescribing, social isolation, transport, mental health and young children policy areas.

Our evidence suggests there are three reasons why the CBO Fund increased the scale and diversity of SIBs:

- Development Grant funding enabled SIBs to be developed that would not have been otherwise (see Chapter 2)
- Top-up funding encouraged commissioners to commit to the SIB who would not have done otherwise
- Association with The National Lottery Community Fund added credibility to the SIB.

These are each covered in further depth below.

6.3.1.1 *Development Grant funding enabled SIBs to be developed that would not have been otherwise*

Almost all the CBO Development Grant recipients responding to National Lottery Community Fund's applicant survey reported that the Development Grant was essential in helping them test the feasibility of the SIB. This was corroborated by our own survey with commissioners and service providers. The CBO Fund also provided applicants with additional support including:

- support from CBO assessment team and other support including from The National Lottery Community Fund's strategic programmes' teams;
- support from a specialist advisor;
- peer events; and
- introductions to investors.

The grant enabled commissioners and service providers to bring in external expertise to support them in developing the SIBs. Without this funding they would have lacked the internal expertise to explore the SIB themselves and would not have been able to afford to buy in external expertise.

"As a relatively small unitary authority we would not have had capacity to develop our SIB without the additional CBO development funding to support us to develop our business case." (Commissioner, comment made in commissioner survey).

However, as we report on previously, the availability of Development Grants has been only a partial solution, as development is still reliant on commissioner capacity and engagement, which at times has been limited

6.3.1.2 *Top-up funding encouraged commissioners to commit to the SIB who would not have done otherwise*

Many commissioners and service providers responding to the surveys reported that the top-up funding was essential in securing commissioner engagement. One of the main benefits of the Fund is it has made it easier for SIBs to be implemented where the savings accrue to the 'wrong pocket' – i.e. where the agency or agencies that gain all or more of the benefit is/are not the main commissioners and agency making the outcome payments. The Brookings Institute, in their report 'The Potential and Limitations of Impact Bonds: Lessons from The First Five Years of Experience Worldwide' note that the 'wrong pocket' problem can occur vertically (e.g. because the commissioner is a local authority and the benefit accrues to central government) or horizontally (e.g. because a children's service department is the commissioner and more of the benefit accrues to the local Clinical Commissioning Group (CCG)).[64] In the MHEP SIB, the CBO funding helped solve a vertical wrong-pocket problem (that most of the benefits would accrue to DWP); in WtW it solved a horizontal problem (that most of the benefits would accrue to the LA).

Brookings themselves note that:

"The Social Outcomes Fund and Commissioning Better Outcomes Fund in the UK and federal grants in the US….have helped resolve wrong pocket problems by supplementing outcome funds with grants…'

Investors whom we surveyed also mentioned both the Fair Chance and Youth Engagement Funds as enabling and encouraging horizontal co-funding across government departments.

For other commissioners, this helped engage co-commissioners, as it reduced the level of contribution they would be required to provide.

"The presence of 20% grant funding encouraged certain commissioners to get involved in our programme." (Commissioner, comment made in commissioner survey)

For others, it de-risked the SIB and reduced the focus on ensuring the SIB 'washed its face', as the commissioner would not have to cover all the costs themselves. This enabled them to develop a more innovative proposition.

"…as the initial savings realised through our SIB are related to cost avoidance rather than cashable savings the financial case would have carried significant risks for pressured budgets which would have limited the scope for innovation." (Commissioner, comment made in commissioner survey)

Finally, the funding provided an incentive for some commissioners to commission the service through a SIB rather than through a fee-for-service contract. For example, this was particularly the case in the MHEP SIB; here some commissioners had already commissioned the service through a fee-for-service contract, but the offer of additional funding through CBO/SOF (Social Outcomes Fund) encouraged them to commission the service through a SIB instead, as it enabled them to increase the pot to run the service at a larger scale:

"…it certainly helped that co-payment from SOF and CBO Fund was available to enable a larger scale of provision than otherwise." (MHEP In-Depth Review)

In these circumstances, the CBO Fund led to SIBs being established, but did not necessarily lead to new services being established, as the service would have instead been commissioned through a fee-for-service contract. However, it is important to consider that the majority of commissioners and service providers

[64] See: https://www.brookings.edu/wp-content/uploads/2016/07/Impact-Bondsweb.pdf

reported that they felt the SIB helped establish new services that would not have been funded without the SIB mechanism (see chapter 3), and so these instances are in the minority.

6.3.1.3 *National Lottery Community Fund backing added credibility to the SIB*

A small number of organisations reported that the backing of National Lottery Community Fund added credibility to the initiative, and this instilled confidence in the idea amongst some stakeholders:

"…securing the Lottery funding has given the SIB project a certain level of credibility which has helped with gaining agreement within [my local authority] to take this work forward. The very fact that a well known organization is willing to financially support this project give a certain level of assurance to senior officers." (Commissioner, comment made in commissioner survey)

A similar finding emerged from the in-depth review of the HCT travel training SIB. HCT found that Cabinet Office (now DCMS) and National Lottery Community Fund 'backing' for the SIB through the CBO / SOF had encouraged some of the commissioners to participate, because they valued the 'seal of approval' that this brought, over and above the financial benefits of these funds.

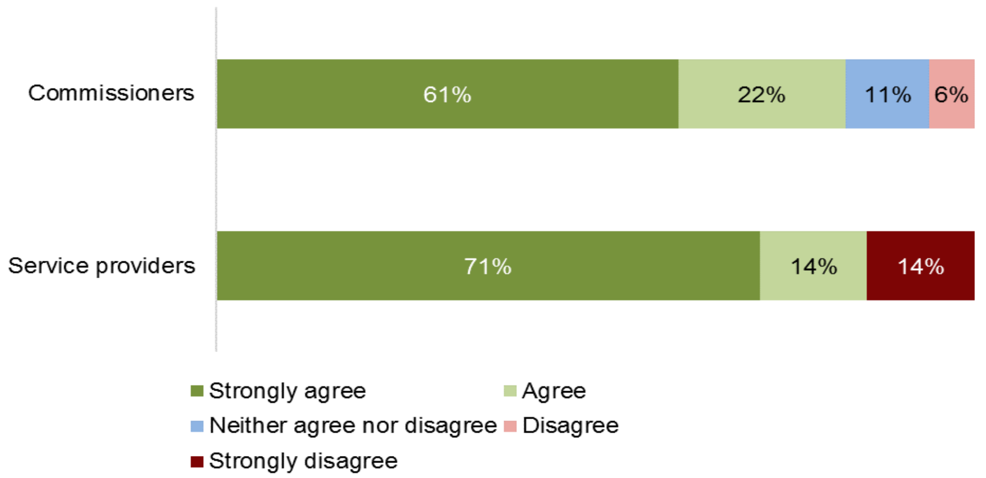
6.3.2 Raised stakeholders' awareness and understanding of SIBs

As we note in the section above, stakeholders believe that there is a greater and broader awareness of SIBs than in2014, and for a smaller group of people a deeper understanding. To some degree this can be attributed to the CBO Fund. 283 people from 263 organisations attended market development events run by the CBO Fund's support contractor, and 62 organisations tested the feasibility of SIBs, funded by CBO. The evidence from our stakeholder surveys suggests that these CBO-funded activities increased their awareness and understanding of SIBs (**Figure 6.6**).

"Until we made the application to the CBO we didn't know very much about SIBs." (Commissioner, comment made in commissioner survey)

Figure 6.6: Impact of CBO on commissioners' and service providers' awareness of SIBs

Survey question: "To what extent do you agree with the following statement: my involvement in the CBO Fund has improved my awareness of SIBs"



Source: Commissioner and service provider surveys. Only stakeholders involved in CBO were asked to respond. Commissioner n=18; service provider n=7.

There is also evidence that this increased awareness and understanding of SIBs brought about by CBO is leading to further activity not related to the Fund. For example, five out of the 13 CBO applicants we interviewed who had not pursued the SIB they developed through the Development Grant were actively developing SIBs in other areas. They were drawing on their knowledge they had gained through CBO, and some felt they would require less external intermediary support as they had more in-house skills to develop the SIB (though this has to be considered alongside the point made earlier that many commissioners lack the capacity to develop SIBs). The CBO-funded activity is therefore likely to leave a legacy outside and beyond the Fund itself.

"…we wouldn't rule SIBs out and we are actively looking for other places where they are relevant." (Commissioner, comment made during consultations with non-operational SIBs)

6.3.3 Increased the role of VCSEs in SIB development

The CBO Fund contributed strongly to the growth in provider-led SIBs. This was predominantly due to the fact that EoIs and Development Grants could be led by providers, but also due to a conscious decision within National Lottery Community Fund to promote the role of VCSEs in SIBs:

"We've promoted more and more the VCSE piece, and the need for VCSEs to be actively involved in a whole series of roles." (National Lottery Community Fund representative, comment made during stakeholder consultations)

However, one key stakeholder interviewed felt that this was not necessarily a positive development, due to the challenges of provider-led SIBs as we describe earlier. They also felt that this created a false idea of the interest and demand in SIBs, as many SIBs were being developed that commissioners had no intention to commission.

"Ultimately SIBs are about commissioners, and a focus on the providers…is not that helpful." (Stakeholder, comment made during stakeholder consultations)

6.3.4 Areas for improvement

Whilst the activity of the CBO fund developed the SIB landscape, the evidence suggests that the Fund could have developed the landscape even further, if it had provided more clarity about the CBO application process. The evaluation did not focus on the CBO application process itself. However, evidence around areas for improvement in the process emerged through CBO's own surveys of applicants and advisors. It should be noted, though, that this evidence was not investigated by the evaluation, and so we cannot comment on its representatives, nor can we explain the findings beyond the comments made in the surveys. However, in the interests of transparency we felt it important to include this evidence.

Overall, CBO applicants were positive about the support they received from the CBO team during the application process. 30 out of the 36 applicants responding to CBO's own applicant survey were very positive about the CBO team, with one providing a mixed response (though saying they were overall generally very helpful) and five did not respond (though this survey was administered, and seen, by the CBO team so was not independent, which could have affected applicants' responses).

"Both contacts were responsive, considerate and helpful. Exceptionally grateful to them for their support and straightforward approach to their work." (Service provider, comment made during applicant survey).

However, the National Lottery Community Fund's survey of advisors, and other evidence sources, received more mixed sets of responses. Advisors in particular felt that the application process was overly labour-intensive, which took capacity away from developing the SIB. One commissioner interviewed for the non-operational SIB consultations felt that the application process took up a lot of capacity within the organisation, and a number of commissioners interviewed reported that there were internal debates about whether the funding justified the amount of time required.

"The application form and subsequent questioning can seem labour intensive which can put commissioners off." (Intermediary, comment made during CBO Intermediary Survey)

Whilst there is recognition that the application processes of this nature require a close level of scrutiny, advisors in particular (but also some commissioners and investors) felt that this became overly-complicated and burdensome. They felt this was compounded by a lack of clarity and also sometimes seemingly less relevant questions.

"The CBO templates are not always very helpful." (Intermediary, comment made during CBO Intermediary Survey)

This challenge is significant given commissioners' limited capacity to develop SIBs, as we report on earlier. Whilst no one claimed that the demands on the application process prevented them from developing the SIB, if the application process was simpler this would have freed up commissioner capacity to focus more on developing the SIB, and it is possible this would have led to more SIBs being developed.

"We have heard there has been some frustration among applicants around the time it takes and the details involved in the process, which can be a significant distraction from developing the SIBs themselves, but recognise there is a level of scrutiny and oversight which is necessary with such a programme." (Intermediary, comment made during CBO Intermediary Survey

It is worth noting, however, that this was not a universally-held view and indeed the CBO team had conducted stakeholder consultations to shape the CBO process and forms. Moreover, some commissioners reported that the application process helped them think through their SIB, and increased their understanding of SIBs:

"The need to meet [the conditions set out in the application process] helped to focus the next stage of our work and informed the tender documentation and contract." (Commissioner, comment made during commissioner survey)

Our 2017 investor survey had some similar feedback. Some investors said that they had been frustrated with the CBO process.

It is important that the lessons learnt from the CBO application process are applied to future SIB programmes, and that the resources required for the process are proportionate. In light of this we recommend that the National Lottery Community Fund undertake a review to further understand the comments about the application process made in the applicant and advisor surveys,

However, it should also be noted that the National Lottery Community Fund made a concerted effort to listen and respond to feedback during the application process. The application process was substantially simplified following feedback.

Recommendation: Undertake a further review of the CBO application process so lessons can be learnt for structuring any future SIB subsidy funding

6.4 Conclusion

The SIB landscape has changed to a large degree since our baseline assessment in 2014. The number of SIBs has more than doubled; they are operating in new policy areas (particularly in the health sector); their characteristics have changed; and the supporting SIB infrastructure has grown and matured.

Interestingly though, the benefits and challenges surrounding SIBs have stayed broadly the same. The evidence base since 2014 has generally strengthened some of the emerging findings. However, the evidence base around some benefits (such as bringing upfront investment and embedding an outcomes-focused culture) is greater than others (such as their ability to foster innovation). What is perhaps interesting is that many of the challenges identified in 2014 still exist: they still take a long time to develop; require large set up costs; and there are still challenges in agreeing contracts to suit all parties.

The activity funded through the CBO Fund has contributed quite substantially to these changes in the SIB landscape. The work of the support contract engaged a large number of stakeholders and contributed to the increases in awareness of SIBs. The Development Grants and allied support provided stakeholders with the resources to test and develop SIBs in new policy areas. This, coupled with the top-up funding, has directly led to SIBs being launched that would not have done otherwise. Furthermore, the pipeline of funding helped build and mature the capacity of the wider SIB infrastructure, and has generally increased the sector's understanding and awareness of SIBs. This is likely to lead to a legacy beyond the direct SIBs funded through the CBO Fund.

7.0 Conclusions, Recommendations and Areas for Further Research

The main finding from, the CBO evaluation to date is that stakeholders involved in the CBO-funded SIBs whom we have consulted were satisfied with how the SIBs were developing. Commissioners were satisfied because SIBs were funding services that they would have struggled to fund otherwise because they could not take risks on relatively unproven programmes/and or they could not afford early intervention programmes in this climate. Service providers were satisfied because SIBs were allowing them to deliver what they perceived to be innovative and new services that would not have received funded otherwise. And investors were satisfied with the returns they were receiving, and because they had a better sense of what social impact the invested VCSEs were achieving due to SIBs embedding an outcomes-focused culture. The evaluations published to date also show that the interventions funded by the SIBs are achieving positive outcomes. Therefore the ''win, win, win' (win for the commissioner, win for the service provider and win for the investor) premise on which they were built appears to be materialising.

Sitting below this main headline is some nuance, however. In our stakeholder surveys we found that, whilst investors and service providers consulted were mostly positive about their experiences of SIBs, commissioners' experiences were more mixed. We need to undertake more qualitative research to understand this in further depth, but we believe this is likely because most of the costs (in terms of outcome payments but also capacity demands and opportunity costs) fall to commissioners, whilst most of the benefits (in terms of delivering new services and receiving returns) fall to service providers and investors. So whilst they appear to be 'win, win, win', it would appear that some stakeholders win more than others. This perhaps explains also why service providers seem to have led their development and are more interested in getting involved in future SIBs than commissioners, although commissioners' views are still relatively positive.

What is also apparent, is that SIBs are still beset by the same challenges as they were in 2014. They still take a long time to develop and incur high set-up costs. The level of attrition and number of SIBs that cease development is also still high. What is interesting is that we, based on the views of wider stakeholders, predicted in the previous update report that SIBs would get quicker and cheaper to develop as they replicated. The evidence from our more recent research is that this has not happened. This is most likely because, in the main, we are not yet seeing replication – most of the SIBs we have examined continue to be 'new', rather than replicating models that preceded them, and so they still require large amounts of development. However, what we have also found is that even relatively simple SIBs (such as the HCT SIB) still take a long time to develop and incur high costs. The time and cost seems, therefore, more linked to the fact that they require many of the parties to work in a completely different way rather than the complexities of developing metrics and outcomes; this will likely continue to take up time and costs until they become mainstreamed. However, their large time and cost demands are the very reason *why* they may not become mainstreamed, as, in the main, commissioners lack the capacity to fully engage with them. This creates a 'catch22' situation for the mainstreaming of SIBs.

Key stakeholders believe that we are nearing the end of the SIB Hype Cycle, as people recognise that SIBs are not a panacea, and are beginning to develop a better understanding as to when they are most appropriate, and what is required to develop one successfully. However, the SIB landscape is not yet at the 'Plateau of Productivity', where mainstream adoption starts to take off. Awareness has increased but they are still niche, only a small number of people have a detailed understanding of them and they rely on subsidies to get off the ground. The evidence base underpinning them has strengthened but is still relatively limited. From the CBO Fund evaluation perspective, because of where the Fund is in its lifecycle, our focus has largely been on the set-up rather than delivery of SIBs. We know about stakeholders' views on the strengths and weaknesses SIBs bring to setting up new services, but we still know relatively little about how they impact on delivery and outcomes. In the next year we will revisit the first set of SIBs that featured as in-depth reviews, and at this point we will have a fuller picture about the impact of SIBs. It likely that stakeholders' perceptions of SIBs will shift at this point.

A number of stakeholders reported during the research that this mainstreaming/widening of understanding is being hampered by the lack of information and learning stemming from the first set of funded SIBs. There are some robust independent evaluations of some of the first SIBs, but there is still a general lack of data on how most SIBs have been set up, the business cases underpinning them and how they are performing. In our investor survey we were able to extract generally what returns investors were making, but before this point this information was not available. Stakeholders report that this lack of information is making it difficult to replicate previous SIB models (leading to 'reinventing of wheels' and increasing SIB costs) and build on the lessons learnt from earlier SIBs. Until this information becomes available it is unlikely that SIBs will become mainstreamed.

This research has also highlighted potential solutions to some of the challenges identified in relation to growing the SIBs market, specifically in relation to:

- replicating previous SIB models in order to reduce the set-up complexity and therefore duration and cost; and
- innovations in the SIB design to compensate for when the LOUD factors are not present (such as running pilots, using foundation funding to de-risk investments and having implementation phases during SIBs, all three of which are present in the WLZ SIB).

7.1 Recommendations

For CBO:

- **Undertake a further review of the CBO application process so lessons can be learnt for structuring any future SIB subsidy funding:** Surveys undertaken by the National Lottery Community Fund of applicants and advisors found evidence around areas to improve the CBO application process, particularly in relation to the level of questioning and the clarity around the process. It is important that the lessons learnt from the CBO application process are applied to future SIB programmes, and that the resources required for the process are proportionate. In light of this we recommend National Lottery Community Fund undertakes a review to further understand the comments about the application process made in the applicant and advisor surveys.

For others wishing to develop the SIB market:

- **Provide independent guidance on how commissioners and service providers could engage with investors depending on the role sought from the capital, and when, how and why some investors seek to split the risk in SIBs between stakeholders, rather than carry it all themselves:** The main areas commissioners and service providers reported not understanding related to investors. We believe the lack of understanding remains largely a problem caused by a lack of transparency; it appears that suspicion and misconception would reduce if investors were more open with commissioners and others, and if there were clear and easy to understand guidance available to commissioners on what investors do and how they do it, and what the true costs and benefits of investment might be.

- **Provide clear and easy to understand information on the different ways investors can apply capital to SIBs, and the positioning and preferred approaches of specific leading investors:** The evaluation found increasing diversity in the way finance is structured in SIBs and capital applied by investors. What is not clear from our research is whether and to what extent these developments and investor positionings are necessarily clear to, and well understood by, commissioners and providers. This reinforces the need for better, easily understood information to be made available about investors.
- **Provide clearer guidance to providers on when and when not to expect commissioners to use the light-touch procurement regime:** The prominence of providers in developing SIBs continues to lead to challenges at procurement stage, and tensions and disagreements on when it is appropriate to use the light-touch procurement regime (such as the single stage Prior Information Notice (PIN) and Voluntary Ex Ante Transparency (VEAT) Notice). Ultimately decisions about the appropriate procurement route lie with the commissioner. However, we think there needs to be clearer guidance to providers about the circumstances in which it would be reasonable to expect a commissioner to use the light touch procedure to enable a contract to be let with no or minimal competition, and when they should reasonably expect them to refuse to do so.
- **Ensure commissioners are aware of what the essential elements of an outcomes-based contract are, and the importance of building the right contract terms into SIB contracts, even if they do not use the template contract:** A key challenge in SIBs is agreeing a contract that is acceptable to all parties. Specifically, they must contain the appropriate terms to make them suitable for an outcomes-based approach, in which risk is transferred away from commissioners whilst securing a viable deal for all parties. A particular issue for those agreeing contracts is whether or not to use the Template PbR/SIB contract that was originally developed by the Cabinet Office and has been used by a number of organisations to develop SIBs. Whether the template contract is used or not, it remains paramount that commissioning teams understand the critical importance of reflecting the unique features of an outcomes-based contract in their documentation.

For commissioners:

- **Consider closely the terms and conditions in SIB contracts:** See description above on the importance of using an appropriate contract for outcomes-based commissioning
- **Where possible take the lead on developing the SIB:** As noted above provider-led SIBs lead to a range of complications, mostly in relation to procurement issues. They also lead to a degree of wasted resource, as SIB propositions are developed that are of no interest to commissioners. The SIB development process would be more efficient if it were led by the commissioner.

For providers:

- **Familiarise yourself with when it is, and is not, appropriate to expect commissioners to use the light-touch procurement regime:** See above on the description of the tensions regarding the light-touch procurement regime.

For all stakeholders:

- **Stakeholders should publish real-time data on the structure, business case, performance and outcomes of SIBs, and their rationale for pursuing a SIB compared to other options, in order to facilitate replication and increase stakeholders' awareness of the effectiveness of SIBs:** There is very limited publicly available data on the contracts or performance of the first set of SIBs. It is important to consider this in the wider context, highlighted in our stakeholder surveys and investor breakfast meeting, that stakeholders are struggling to replicate SIBs and understand their overall effectiveness because there is limited information available on the contracts and performance. Investors in particular were concerned that such data should be published, as it will help build investor confidence and build the market.
- **Focus on ensuring the four LOUD factors are in place when developing a SIB:** Our research has found there are four critical success factors that determine whether a SIB is launched (collective leadership; clear outcomes; shared understanding; and data). Stakeholders developing a SIB should focus on ensuring these factors are in place.
- **Stakeholders developing SIBs need to recognise and make clear that the SIB will require a cultural transformation and way of working that is focussed on all parties' involvement in systems change; to achieve this they must engage all necessary parts of all organisations as early as possible to work out what tools and attitudes they need to apply in their work in pursuit of this:** The evaluation findings suggest that SIBs require organisations to work quite differently, and this is sometimes not recognised. SIBs are seen primarily as a new way of buying an intervention; it is not always recognised that they can require stakeholders to work in quite different ways. It is important to make expectations around cultural transformation overt, and to engage all necessary parts of all organisations as early as possible. This includes using competitive dialogue to communicate between commissioners and service providers.

7.2 Areas for further research

Throughout this report we highlight areas that require further research in order for them to be fully understood. These are listed below, including whether or not they will be explored through later waves of the evaluation:

- Impact of the SIB mechanism on the level of outcomes achieved.
  - *This evaluation will measure qualitative perceptions on the extent to which the SIB contributed to the levels of outcomes achieved. Due to the design of the programme it will not be possible to measure this quantitatively, as there are no comparison sites through which to measure the counterfactual robustly.*
- In the SIBs that are not self-funded by the cashable savings they generate, why it is that a commissioner can pay for the outcomes in the future, but not at the present time?
  - *This will be explored over the remainder of the evaluation, particularly by understanding how commissioners fund outcome payments*
- What are service providers' overall views on the impact of the outcomes-focused culture brought about by SIBs? How is it that service providers report this to be a benefit overall, yet also report that it reduces staff morale?
  - *To be explored in remainder of evaluation through further qualitative analysis of impact on providers*
- The cost of setting up SIBs in programmes since CBO, and whether costs are falling
  - *This is beyond the scope of the evaluation*
- Further information on commissioners' views on whether the benefits of the increased contract management linked to SIBs outweighs the costs
  - *To be explored in remainder of evaluation through capturing commissioners' views over time*
- How the balance of risk between parties is captured in contracts, and commissioners' understanding of the process
  - *To be explored in remainder of evaluation*
- The level of robustness of the SIB business cases, and what happens to the SIB when the assumptions in the business case prove to be incorrect
  - *To be explored in remainder of evaluation by comparison of actuals to business case forecast, and exploration and analysis of all parties' responses to variation*
- How the different SIB models (particularly the 'intermediated' and 'direct' models) affect the delivery and performance of the interventions
  - *To be explored in remainder of evaluation, particularly by comparing the performance of different models*
- Whether the 'win-win-win' for commissioners, service providers and investors holds true when the SIB is not succeeding against its outcome targets
  - *To be explored in remainder of evaluation*
- How both the CBO-funded SIBs and other SIBs develop outside of a SIB-stimulation programme
  - *This is beyond the scope of the evaluation*
- Why commissioners' experiences of SIBs are more mixed compared to the experiences of investors and service providers
  - *To be explored in remainder of evaluation*

8.0 Glossary

Below are list of definitions of terms used within the report. These definitions have five sources, and the source is listed at the end of each definition:

- National Audit Office (NAO) report: Outcome-based payment schemes: government's use of payment by results'[65].
- Centre for SIBs[66]
- GO Lab[67]
- Our own definition

Attribution: Ability to link a specified intervention with the achievement of a specified outcome. (NAO definition)

Block purchase SIB: A SIB developed by one or several service providers, which is then offered to commissioners for a pre-agreed price per outcome for an agreed number of outcomes and/or defined cohort volume. (own definition)

Cashability: The extent to which a change in an outcome or output (e.g. fewer children in care) will result in a reduction in spending, such that the expenditure released from that change can be reallocated elsewhere (GO Lab definition)

Cohort: Group of people identified to receive intervention. (NAO definition)

Collective impact bond: This is a term coined by the West London Zone project to describe their innovative funding model, which brings together multiple delivery agencies (charities and other social sector partners), multiple commissioners (mostly public sector budget-holders who pay for positive outcomes for children and young people), and multiple investors (individuals, foundations and corporate institutions who want to combine commercial investment with social value, and carry some of the risk on behalf of the charities). In a collective impact bond, funding comes from multiple sources, including - but not limited to - social investment (GO Lab definition)

Commissioner: Organisation which funds or contracts for delivery of a service. (NAO definition)

Due diligence: The process whereby an organisation or company's strengths and weaknesses are assessed in detail by a potential investor with a view to investment (GO Lab definition)

Fee for service: Payment based on service levels or outputs delivered, rather than outcomes. (NAO definition)

Impact: In the context of impact evaluations, an impact is a change in outcomes that is directly attributable to a programme; also known as causal effect.

[65] NAO, 2015. *Outcome-based payment schemes: government's use of payment by results.* See: https://www.nao.org.uk/wp-content/uploads/2015/06/Outcome-based-payment-schemes-governments-use-of-payment-by-results.pdf
[66] See: https://data.gov.uk/sib_knowledge_box/home
[67] See: https://golab.bsg.ox.ac.uk/basics/glossary/. The PIN and VEAT definitions are taken from GO Lab's 'How to Guide@ Procurement, 2nd Edition. See: https://golab.bsg.ox.ac.uk/knowledge/resources/how-guide-procurement/

Intermediary: An intermediary is a party that offers intermediation services between other parties. In a social impact bond, that means an intermediary is not the commissioner, service provider or investor. Intermediaries have offered different services to the social impact bonds developed so far. Services that can be provided by intermediaries include:

- introducing parties to the deal;
- gathering evidence and producing feasible options;
- facilitating negotiations between parties;
- raising investor capital;
- establishing a special purpose vehicle; and
- managing performance.

(Centre for SIBs definition)

Intervention: Activities undertaken with the intention of producing the desired outcome. (NAO definition)

Outcome: A result or change experienced by a person, family or community, for example improved parenting. (NAO definition)

Outcome based commissioning: This describes a way to deliver services where all or part of the payment is contingent on achieving specified outcomes. The nature of the payment mechanism in an outcome based contract can vary, and many schemes include a proportion of upfront payment that is not contingent on the achievement of a specified outcome (GO Lab definition)

Output: Unit of service delivered, for example number of people completing a programme. (NAO definition)

Payment by results (PbR): Practice of paying providers for delivering public services wholly or partly on the basis of results achieved. (NAO definition)

Prime contractor: Provider who is directly contracted to deliver a service and acts as the single point of contact for the commissioner. Prime contractors may pass on work to subcontractors. (NAO definition)

Prior Information Notice (PIN): A Prior Information Notice (PIN) is a method for providing the market place with early notification of intent to award a contract/framework. It allows a narrow window for potential bidders to express an interest and then to submit a proposal in a period as short as 10 days. (GO Lab definition)

Procurement: The acquisition of goods and services from third party suppliers under legally binding contractual terms. Such acquisitions are for the direct benefit of the contracting authority, necessary for the delivery of the services it provides or the running of its own business. Public sector procurement is normally achieved through competition, and is conducted in line with the government's policy of value for money and in line with the Public Contracts Regulations 2006. (GO Lab definition)

Service provider: Organisation which is contracted or funded to deliver the service (this is defined as a 'provider' in the NAO report).

Social investment: The provision of capital for the purpose of generating social as well as financial returns. (NAO definition)

Social investor: A social investor is an investor seeking social impact in addition to financial return. Social investors can be individuals, institutional investors, dedicated social investment funds and philanthropic foundations, who invest through their endowment. (GO Lab definition)

Special Purpose Vehicle (SPV): Legal entity that is created solely for a particular financial transaction or to fulfil specific objectives. (Centre for SIBs definition)

Spot purchase SIB: A SIB developed by one or several service providers, which is then offered to commissioners for a pre-agreed price per outcome and with the flexibility for the commissioner to purchase only a single outcome, or a number of outcomes. (Own definition).

Voluntary Ex Ante Transparency (VEAT) Notice: This provides retrospective notice through the OJEU (Official Journal of the European Union), which publishes information on public sector contracts) process of a decision to award a contract to a provider without competition. A VEAT is the reverse of a PIN (see above) in that it does not provide for a competition. (GO Lab definition)